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MANITOBA) Order No. 13/97
))
THE PUBLIC UTILITIES BOARD ACT) March 7, 1997

BEFORE: G. D. Forrest, Chairman
 D. L. Barrett-Hrominchuk, Member
 W. E. Chiswell, Member
 J. Hillard, Member

CENTRA GAS MANITOBA INC.
AN ORDER APPROVING RATES PURSUANT
TO BOARD ORDER NO. 8/97

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EXECUTIVE SUMMARY

Centra applied to the Board for increased rates effective January 1, 1997 that would recognize:

- i) an increase in the Company's rate base of \$6.5 Million on a net basis over that last approved by the Board in 1995. The revised applied for rate base is \$276,268.700.;
- ii) a lower allowed rate of return on equity from 12.12% to 11.29%;
- iii) a decrease in the Company's overall rate of return from 10.80% to 9.98%;
- iv) an increase in its operating expenses of \$2.2 Million over a two year period; and
- v) a total revenue requirement of \$267.4 Million.

While Centra had included a commodity cost of \$1.55 per gj in its original application, in responding to the Board's decision in Board Order 8/97, they filed for increased rates that included a commodity cost of gas for 1997, of \$1.80 per gj. This change in commodity costs alone increased the Company's revenue requirement by \$12.2 Million and except for this change, the ratepayers of Centra would have experienced a rate reduction because of the adjustments made by the Board to the Company's application in an amount of \$4.3 Million.

As indicated in prior decisions of the Board, Centra has a gas supply contract that includes prices determined by a market index and for the most part this index is the New York Mercantile

Exchange. The \$1.80 per gj reflects Centra's best forecast of the average commodity price on a managed basis, on the NYMEX. While Centra attempts to mitigate its exposure to the NYMEX through price management, NYMEX is a market determined price beyond the control of Centra and this Board. Accordingly, it is treated as a pass-through cost and those customers that remain on the Centra supply must pay for such cost of gas changes.

While much of Centra's capital program was related to bringing natural gas to unserved parts of Manitoba under the Canada-Manitoba Infrastructure Works Program, the increased level of other capital expenditures unrelated to system expansion were of concern to the Board. The Board, recognizing that capital expenditures generate a need for increased rates, cautioned the Company to limit its expenditures to those necessary to accommodate growth and to maintain safety and existing levels of customer service. The Board reduced the Company's capital requirement by approximately \$3.5 Million. In the Board's opinion Centra failed to demonstrate that all of its investments were used, useful and prudently acquired. In effect, they did not all benefit the ratepayers.

The Board reduced the Company's return on equity from that applied for. The Board did not approve Centra's request to move the date of the Consensus Report of the Long Term Canada Bonds from November to September. As a result of these and other changes the Company's return to its shareholders was reduced from 11.29% to 10.58% causing a reduction in revenue requirement of \$1,300,000.

The Board was not satisfied that Centra had demonstrated adequate containment of its operating and maintenance expenses. The Board reduced the Company's expenses related to executive bonuses, staffing, regulatory costs and the cost of shared services with the Company's affiliated companies.

The Board did not approve Centra's application to increase rates to reflect the higher commodity costs of gas from \$1.55 to \$1.80 per gj. In the Board's opinion the Company should make an application to support such change before such an increase is allowed.

As noted earlier, Board directed amendments reduced the Company's revenue requirement by \$4.3 Million.

Centra was requested to file revised rates that would generate revenues so that the overall revenue requirement is neutral. However, the Board also directed a reduction in revenue to reflect the changes made for non-gas costs items and approved an increase of a corresponding amount for the cost of gas so that on an overall basis the Company earns no increased revenue.

While the Board did not approve an increase in the commodity costs to the level requested by the Company, the Board does recognize that there is an upward pressure on rates in the marketplace today and to have rates move downwards to reflect non-gas cost changes only at this time and later move upwards to reflect gas cost changes would not be desirable. To the extent these rates are interim it will allow the Board to review in-depth Centra's submission in support of its non-gas cost reductions and any further applications made by Centra to support an increase in commodity costs.

While the changes are revenue requirement neutral on an overall basis, the change will not be revenue neutral on customers because the allocation methodology for non-gas costs differs from the methodology used for gas costs. Residential customers will experience cost increases ranging from 2.0% to 2.3% effective March 1, 1997.

SOMMAIRE

Centra Gas Manitoba Inc. («Centra») a soumis à la Régie des services publics («Régie») une demande d'augmentation de tarifs qui doit entrer en vigueur le 1^{er} janvier 1997. L'augmentation demandée tient compte de ce qui suit :

- i) une augmentation nette de 6,5 millions de dollars de la base de tarification de Centra par rapport à celle approuvée par la Régie en 1995; la base de tarification révisée qui fait l'objet de la demande est de 276 268 700 \$;
- ii) une baisse du taux de rendement des capitaux propres, qui passe de 12,12 % à 11,29 %;
- iii) une baisse du taux de rendement général de Centra, qui passe de 10,80 % à 9,98 %;
- iv) une augmentation de 2,2 millions de dollars de ses frais d'exploitation étalée sur une période de deux ans;
- v) des exigences de 267,4 millions de dollars au titre du total des produits.

Bien que Centra ait inclus des coûts du gaz de 1,55 \$/Gj dans sa demande originale, la société a proposé, en réponse à l'ordonnance n° 8/97 de la Régie, une augmentation de ses tarifs qui comprend des coûts du gaz de 1,80 \$/Gj pour 1997. Une telle modification des coûts du gaz augmenterait à elle seule les produits de Centra de 12,2 millions de dollars. Si ce n'était d'une telle modification, les clients de Centra auraient bénéficié d'une baisse des tarifs en raison des rajustements d'une valeur de 4,3 millions de dollars apportés par la Régie à la demande de la société.

Comme l'indiquaient les décisions antérieures de la Régie, Centra détient un contrat d'approvisionnement en gaz dont les prix sont déterminés selon un indice de marché établi principalement selon l'indice du New York Mercantile Exchange (NYMEX). Le coût de 1,80 \$/Gj reflète les meilleures prévisions de Centra quant au prix moyen du gaz sur une base discrétionnaire, tel qu'établi au NYMEX. Bien que Centra tente d'atténuer son exposition au NYMEX au moyen de la gestion des prix, ce dernier établit des prix de marché qui sont hors du contrôle de Centra et de la

Régie. C'est pourquoi les prix du NYMEX sont considérés comme des «frais administratifs» que les clients approvisionnés par Centra doivent assumer.

Bien que la plus grande partie du programme d'investissement de Centra vise l'approvisionnement en gaz des régions du Manitoba non desservies par la société aux termes du Programme de travaux d'infrastructure Canada-Manitoba, le niveau accru des autres dépenses en capital qui ne sont pas liées à l'expansion du réseau préoccupe la Régie. Reconnaissant que les dépenses en capital se traduisent par le besoin d'accroître les tarifs, la Régie a demandé à Centra de limiter ses dépenses à celles qui sont nécessaires à la croissance et au maintien de la sécurité et du niveau actuel de service à la clientèle. La Régie a réduit les exigences en capital de Centra d'environ 3,5 millions dollars. Selon la Régie, Centra n'a pas réussi à démontrer que tous ses investissements ont été utilisés, utiles et acquis prudemment. En fait, les clients de la société n'ont pas bénéficié de la totalité des investissements.

La Régie a réduit le taux de rendement des capitaux propres demandé par Centra. Elle n'a pas approuvé la demande de Centra relativement au déplacement de novembre à septembre de la date du rapport de consensus sur les obligations du Canada à long terme. À la suite de ce refus et d'autres modifications, le taux de rendement des actionnaires de Centra a été réduit de 11,29 % à 10,58 %. Cela s'est traduit par une réduction des exigences au titre des produits de 1 300 000 \$.

La Régie n'était pas satisfaite de Centra quant à l'endiguement de ses frais d'exploitation et d'entretien. Elle a réduit les dépenses de la société liées aux bonis accordés aux dirigeants, à la dotation en personnel, aux coûts de réglementation et aux coûts des services partagés avec les sociétés affiliées à Centra.

La Régie n'a pas approuvé la demande de Centra portant sur l'accroissement des tarifs afin de compenser la hausse des coûts du gaz de 1,55 \$ à 1,80 \$/Gj. Selon cette dernière, Centra devrait soumettre une demande en fonction d'une telle hausse avant de se voir accorder une augmentation de tarifs.

Comme on l'a mentionné auparavant, les amendements ordonnés par la Régie ont réduit de 4,3 millions de dollars les exigences de Centra au titre des produits d'exploitation.

La Régie a demandé à Centra de soumettre des tarifs révisés qui produiraient des revenus qui auraient un effet neutre sur ses exigences générales au titre des produits. Par ailleurs, la Régie a également ordonné une réduction des produits afin de refléter les modifications apportées aux coûts autres que ceux du gaz et elle a approuvé une augmentation correspondante des coûts du gaz afin que les produits d'exploitation généraux de Centra ne connaissent aucune augmentation.

Bien que la Régie n'ait pas approuvé une augmentation des coûts du gaz au niveau demandé par Centra, elle reconnaît qu'il existe dans le marché une pression à la hausse des tarifs. Elle reconnaît aussi qu'il n'est pas souhaitable de réduire aujourd'hui les tarifs afin de refléter uniquement les variations des coûts autres que ceux du gaz et de les hausser par la suite pour suivre l'évolution du marché. Dans la mesure où les tarifs approuvés sont temporaires, la Régie pourra examiner en profondeur la demande de Centra en appui à la réduction de ses coûts autres que ceux du gaz, ainsi que toute demande future en appui à une augmentation des coûts du gaz.

Bien que les modifications ordonnées soient neutres au plan des produits généraux, elles ne seront pas neutres pour les clients de Centra parce que la méthodologie d'attribution des coûts autres que ceux du gaz diffère de celle utilisée pour les coûts du gaz. Les clients résidentiels de Centra devront donc accepter une augmentation des coûts de 2,0 % à 2,3 % à compter du 1^{er} mars 1997.

1.0 Board Order No. 8/97

The Manitoba Public Utilities Board ("the Board"), in Board Order No. 8/97 dated February 20, 1997 issued its decision with respect to the application of Centra Gas Manitoba Inc. ("Centra") for the following:

1. Rates for the sale of natural gas and the provision of transportation services to customers to be effective with respect to all gas consumed on or after January 1, 1997.
2. Determination of rate base, rate of return and revenue requirement based on a 1997 future test year.
3. Recovery of residual costs of the peak shaving facilities taken out of service in 1995.
4. Confirmation of interim ex parte Order 92/96 related to the approval of the franchise agreement with the Local Government District of Reynolds and the financial feasibility test.
5. Confirmation of 1996 base rates.
6. Other related matters.

Board Order No. 8/97 required Centra to make a number of changes to its original application and to refile amended rates based upon this Order. These rates were to be effective for all billings based on gas consumed on and after January 1, 1997. The Board received Centra's filing on March 3, 1997.

2.0 Centra's March 3, 1997 Filing

Centra filed its amended 1997 Test Year Revenue Requirement to reflect the Board's decisions and included in that filing an update for changes to its cost of gas.

In the filing Centra reflected an overall annual revenue deficiency in 1997 of approximately \$6.3 Million as indicated on Line 31 of revised Schedule 2.0.0, and an overall rate of return of 9.576%. This compares to a revenue excess of approximately \$1.7 Million and an overall rate of return of 9.982% in the original application.

Highlights of the update filing are as follows:

1. Western Canadian gas cost for 1997 is now forecasted to be \$1.80/GJ as compared to \$1.55/GJ in the application.
2. Operating expenses have been reduced by approximately \$788,300.
3. Generic Hearing costs have been reduced by approximately \$200,000 and the amortization period has been extended to five years.
4. Rate Base has been reduced by \$1,602,800 resulting from a reduction of Plant in service of \$3,523,200, an increase to finance contracts of \$918,200 and an increase of contributions of \$460,400.
5. Return on Equity has been reduced to 10.58% based upon the November consensus forecast.

In its filing Centra suggested that the 1997 average price of \$1.55/GJ for Western Canadian supply was no longer appropriate,

given recent pricing trends in the market and suggested a revised price for Western Canadian supply of \$1.80/GJ. Based on this price and using 1997 normalized sales volume of 1,874,523 10³ M³, Centra's estimated cost of gas for 1997 is \$162,719,100 compared to the November 6, 1996 estimate of \$150,370,900.

2.1 Net Utility Plant

Centra re-filed its 1997 13 month Net Utility Plant calculation as follows:

	<u>1977 Requested</u>	<u>1995, 1996 & 1997</u>	<u>1997 Re-filed</u>
Average Plant	\$387,253,500	\$(2,293,600)	\$384,959,900
Accumulated Depreciation	(119,957,000)	334,200	(119,904,200)
Disallowed Assets	(122,800)	0	(122,800)
Contribution in aid of Construction	(24,403,600)	188,400	(24,592,400)
Net Utility Plant	\$242,403,600	\$(2,063,200)	\$240,340,500

2.2 Working Capital Allowance

Centra re-filed its working capital allowance requirements as follows:

<u>Component</u>	<u>1997 Requested</u>	<u>Adjustments</u>	<u>1997 Re-filed</u>
Materials Inventory	\$1,164,000	\$0	\$1,164,000
Gas Inventory	19,526,300	0	19,626,300
Security Deposits	(823,300)	0	(823,300)
Finance Contracts	6,888,700	918,200	7,806,900
Cash Requirements	6,742,900	(91,500)	6,651,500
	<hr/>	<hr/>	<hr/>
Total	\$33,498,600	\$826,700	\$34,325,400

2.3 Rate Base Summary

Centra's 1997 re-filed Rate Base is summarized as follows:

	<u>1997 Requested</u>	<u>Adjustments</u>	<u>1997 Re-Filed</u>
Net Utility Plant	\$242,403,600	\$(2,063,200)	\$240,340,500
Working Capital Allowance	33,498,600	826,700	34,325,400
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Total Rate Base	\$276,268,700	\$(1,236,500)	\$274,665,900

2.4 Revenue Requirement Summary

Centra's revised Revenue Requirement Summary is as follows:

Component	1997 Requested	Adjustments	1997 Re-filed
Cost of Gas	\$150,370,900	\$12,348,200	\$162,719,100
Operating Expenses	49,037,000	(788,300)	48,248,700
Amortization	4,328,900	(954,700)	3,374,200
Depreciation	12,495,700	(124,100)	12,371,500
Municipal and Other Taxes	12,904,400	(28,800)	12,875,500
Income Taxes	13,006,000	(1,039,500)	11,966,500
Overall Return	27,599,200	(1,297,200)	26,302,000
Total	\$269,742,000	\$8,115,600	\$277,857,600
Other Income	2,351,000	81,900	2,432,900
Sales Revenue	\$267,391,000	\$8,197,500	\$275,424,700
Sales Revenue - last Approved Rates	\$269,089,300	\$0	\$269,089,300
Revenue Deficiency (Surplus)	(1,698,300)	\$8,197,500	\$6,335,400

2.5 Cost Allocation and Rate Design

Centra revised its cost allocation to reflect the requested Board changes in allocating transmission related costs to all customer classes in the rural gas expansion areas and to functionally classify the amortization expense for the propane peak shaving facility at a storage demand cost. The cost allocation methodology in all other respects was as approved in Board Order No. 8/97.

The revised filing reflected revenue to cost ratios of 1.0 for all customer classes. It also reflected fixed monthly charges of \$10 for Small General Service ("SGS") class, \$70 for the Large General Service ("LGS") class and fixed costs for other customer classes set to recover the fixed costs for those classes. The rate structure also included a three part rate for the Mainline, Mainline Interruptible Supply/Firm Delivery and Interruptible classes. Centra, in its filing, proposed to postpone the introduction of three part rate design for the High Volume Firm class pending the introduction of full demand metering capabilities and the ability to implement the rates on a full year's basis.

The change in rate design has created two new customer classes, High Volume Firm and Mainline. The SGS and LGS classes contain 230,428 and 9,044 customers, respectively. The two new classes and the Interruptible class comprise approximately 164 customers, including 3 Firm and 8 Interruptible Service customers. These customer classes are all scheduled to have three part rates instituted by no later than January 1, 1998. (All but the Mainline Class are scheduled to be instituted on March 1, 1997.) Because of the change in classes and implementation of a three part rate, the impacts on customers within each of the classes vary over a wide range.

3.0 Board Findings

The Board reviewed Centra's filing on a "prima facia" basis and is satisfied that on an "interim" basis, revised rates effective March 1, 1997 should be approved effective on all billings based on gas consumed on and after January 1, 1997. As these rates are interim, the Board will continue its detailed examination of Centra's filing and if appropriate, make further changes when these rates are confirmed or otherwise at a later date.

In a letter dated March 5, 1997 the Board instructed Centra to file further revised rates that provided for firstly, a reduction in the Company's revenue requirement of \$4.3 Million to reflect the reduction made by the Board to Centra's Application with respect to non-gas cost items and further an increase in the Company's revenue requirement of a like amount to absorb part of the anticipated increase in the Company's cost of gas.

Because of the allocation methodology, the impact of the Board's decision on rates differs for the non-gas cost and the gas cost adjustments. However, on an overall basis, the revenue requirement of the Company is unchanged.

In the Board's view it is important to provide the benefits of the non-gas cost reductions to all customers as soon as possible. Recognizing that there currently exists some upward pressure in gas costs, to the extent possible, some offset for the gas cost change should be made on an interim basis.

The Board requested Centra to file revised rates on the basis of full implementation of the three part rates. The Board determined that the reasons proposed by Centra for the postponement of full implementation was not acceptable particularly when such rates were anticipated by certain customers and were ordered by the Board in Order No. 8/97.

4.0 Actual Customer Class Impacts

The following table sets out the changes in the customers' annual bills as a result of the approval of interim rates effective March 1, 1997. The impacts vary depending on a customer's consumption level as shown on Appendix "B".

CUSTOMER CLASS	APPLIED FOR		INTERIM APPROVAL	
	\$ INCREASE	% INCREASE	\$ INCREASE	% INCREASE
SGS	\$ 34 - \$ 138	5.5 - 6.40	\$ 12 - \$ 49	2.0 - 2.3
LGS	\$356 - \$7200	7.8 - 17.7	\$268 - \$1911	2.1 - 12.6

Customers in the LGS class with low volumes of consumption may find it more economical to move to the SGS class thereby lowering the rate impact. This would lower the fixed monthly charge for the customer but increase the commodity costs. Centra is requested to advise this customer class of this election.

5.0 IT IS THEREFORE ORDERED THAT:

1. A three part rate for the High Volume, Mainline and Interruptible customer classes be implemented, for all billings based on gas consumed on and after March 1, 1997.
2. The Schedule of Rates attached as Appendix "A" to this Order, to be charged by Centra Gas Manitoba Inc. for all billings based on gas consumed on and after January 1, 1997 and continuing up to and including December 31, 1997 BE AND IS HEREBY APPROVED, on an interim basis.
3. This Interim Order shall be in full force and effect until confirmed or otherwise by a further Order of the Board.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order
No. 13/97 issued by The Public
Utilities Board



Acting Secretary

APPENDIX "A"

05-Mar-97

CENTRA GAS MANITOBA INC.
1997 Test Year - Base (Annualized) Rates Plus Riders (Effective March 1, 1997)

		<u>Sales Service</u>	<u>T-Service</u>
Small General Service:			
Basic Monthly Charge	\$/mo.	10.00	N/A
Commodity Charge	\$/m ³	0.1826	N/A
Large General Service:			
Basic Monthly Charge	\$/mo.	70.00	70.00
Commodity Charge	\$/m ³	0.1377	0.0221
High Volume Firm Service:			
Customer Charge	\$/mo.	831.04	831.04
Demand Charge	\$/peak m ³ /mo	0.3902	0.1493
Commodity Charge	\$/m ³	0.0991	0.0046
MainLine Firm Service:			
Customer Charge	\$/mo.	1,066.54	1,066.54
Demand Charge	\$/peak m ³ /mo	0.5499	0.1195
Commodity Charge	\$/m ³	0.0634	0.0004
MainLine Interruptible Service:			
Customer Charge	\$/mo.	1,066.54	1,066.54
Demand Charge	\$/peak m ³ /mo	0.2675	0.1195
Commodity Charge	\$/m ³	0.0704	0.0004
Interruptible Service:			
Customer Charge	\$/mo.	726.73	726.73
Demand Charge	\$/peak m ³ /mo	0.1221	0.0481
Commodity Charge	\$/m ³	0.0376	0.0013
Special Contract:			
Customer Charge	\$/mo.		79,538.67
Commodity Charge	\$/m ³		0.0006

APPENDIX "B"

Comparison of Revenues Generated under July 1, 1996 Base Rates with Proposed Rates

Class	Volume Level		Revenue at Existing Rates	Revenue at Proposed Rates with Riders	Change from Existing Rates	
	Mcf	10 ³ m ³			\$	%
SGS	100	2.8	629	637	12	2.0
	120	3.4	726	741	19	2.0
	130	3.7	777	793	16	2.1
	140	4.0	837	844	17	2.1
	160	4.9	928	948	20	2.1
	180	5.1	1,029	1,051	22	2.1
	200	5.7	1,130	1,155	25	2.2
	400	11.3	2,140	2,189	49	2.3
LGS 4	400	11.3	2,192	2,400	268	12.6
	500	14.2	2,915	2,790	275	10.9
	750	21.2	3,472	3,765	292	8.4
	1,000	28.3	4,430	4,740	310	7.0
	1,250	35.4	5,387	5,714	327	6.1
	5,000	141.6	19,750	20,338	588	3.0
	10,000	283.3	38,899	39,836	936	2.4
	24,000	679.9	92,318	94,429	1,911	2.1