The Public Utilities Board

400-330 Portage Avenue
Winnipeg, Manitoba
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M A N I T O B A	)	Order No. 200/99
	)	
THE PUBLIC UTILITIES BOARD ACT	)	November 26, 1999

BEFORE: G. D. Forrest, Chairman
D. L. Barrett-Hrominchuk, Member
J. A. MacDonald, Member

An Application by Centra Gas Manitoba Inc. for an Interim Order of the Board Seeking Approval of Sales Rates to be Effective November 1, 1999, January 1, 2000 and April 1, 2000.

1.0 Appearances

R. F. Peters	Counsel for the Manitoba Public Utilities Board ("the Board")
P. Ramage M. Murphy	Counsel for Centra Gas Manitoba Inc. ("Centra")
B. J. Meronek, Q.C.	Counsel for the Consumers' Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors
K. Melnychuk	Representing the Coalition of Eastern Natural Gas Aggregators and Sellers
D. W. Weland	Griffin Canada Inc.

2.0 Witnesses for Centra

V. Warden	Vice President, Centra Gas Manitoba Inc. Vice President of Finance, Manitoba Hydro
G. W. Neufeld	Manager, Gas Forecasts & Gas Supply Administration, Centra Gas Manitoba Inc.
G. Meyer	Manager, Rates, Centra Gas Manitoba Inc.
H. Stephens	Senior Manager, Gas Supply, Storage & Transportation, Centra Gas Manitoba Inc.

3.0 Registered Intervenors

Consumers' Association of Canada (Manitoba) Ltd. and Manitoba Society of Seniors ("CAC/MSOS")

Coalition of Eastern Natural Gas Aggregators and Sellers ("CENGAS")

Griffin Canada Inc.

Gerdau MRM Steel Inc.

Communications, Energy and Paperworkers' Union. Local 681

4.0 Background

Centra's current Firm and Interruptible Sales and Delivery Rates were approved by the Board in Order 126/99 dated July 12, 1999. The rates for the Small General Class ("SGC") and the Large General Class ("LGC") included base rates plus rate riders necessary to dispose of the estimated December 31, 1998 balances in various deferral accounts. The rate riders for these two customer classes were to remain in effect from July 1, 1999 to December 31, 1999, at which time the rider would terminate.

Had similar rate riders been applied to the rates for Centra's other customer classes, the overall increase in rates on July 1, 1999 for the High Volume Firm ("HVF"), Mainline and Interruptible Classes would have been excessive in the Board's opinion. As a consequence, in Order 118/99 dated June 29, 1999, the Board ordered that the July 1, 1999 rates for HVF, Mainline and Interruptible customer classes be the required base rates only. The Board further directed that the necessary rate riders to dispose of the deferral account balances, estimated to be approximately $4.79 million at that time, for these classes, be deferred until April 1, 2000, and remain in effect until December 31, 2001.

An estimated annual average cost of $2.74 /Giga Joule ("GJ") for Western Canadian gas was embedded in the base rates for all customer classes.

5.0 The Application

On October 28, 1999 Centra applied for interim approval of Sales and Delivery Service rates for Firm and Interruptible customers, to become effective on November 1, 1999 to reflect forecast increases in the cost of Western Canadian Primary gas for the 1999/2000 gas year. During the hearing, Centra amended the application to request that the interim rates be implemented on December 1, 1999. Centra suggested that the cost of gas be based on the September 24, 1999 12-month forward price curve as reported in the Canadian Gas Price Recorder ("CGPR") commencing November 1, 1999 which was \$3.54/GJ. Centra estimated that the resulting annual 1999/2000 cost of Western Canadian Primary gas, weighted between direct market supply and injection into storage, was \$3.43/GJ.

In response to a Board request, Centra provided an updated 12-month forward price curve as at November 5, 1999 which indicated that the resulting average 1999/2000 cost of Primary Gas from Western Canada would be \$3.36/GJ. After applying the weighting calculation, the required cost of gas to be embedded in December 1, 1999 rates would be \$3.27/GJ. In response to a Board request, Centra filed updated gas cost information based on forward price curves at November 19, and November 24, 1999, which indicated that the average annual unit cost of gas for 1999/2000 would be \$3.176/GJ and \$3.049 respectively, resulting in a blended rate of \$3.11/GJ and \$3.003/GJ respectively. Centra, however, did not amend the application to reflect this decreasing cost, contending that the decrease was not significant, given the volatility of gas prices and the uncertainty of the market.

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The following table shows the estimated annual 1999/2000 Western Canadian Primary Gas costs to Centra based on the unit rates for Western Canadian Supply direct to market:

Date	Unit Cost	Annual Western Canadian Gas Costs
September 24/99	$3.538	$176,015,707
November 5/99	$3.360	$167,165,120
November 19/99	$3.176	$158,010,840
November 24/99	$3.049	$151,692,390

Centra indicated that the current high cost of gas reflected the summer heat wave in the U.S. and the impact of the hurricane season on U.S. supply. Recent and future planned pipeline expansion has resulted in the Alberta price more closely reflecting the North American market price. Centra stated that high costs are expected for the balance of the 1999/2000 gas year due to concerns about a continuing tight gas supply situation, an increase in demand levels because of the hot summer, a concern about the adequacy of 1999 storage levels at the end of the injection period, and the perception that high gas costs would not result in a loss of the competitive edge of natural gas in the electricity generation market.

Centra estimated the October 31, 1999 Purchase Gas Variance Account balance ("PGVA") balance to be $3.1 million owing to Centra. Based on new November 1, 1999 rates which would embed the $3.43/GJ price, Centra projected the PGVA balance would decrease to an estimated 1999 year end balance of $1,513,350. Therefore, Centra proposed that the 1999 PGVA balance be disposed of at a future hearing, when the actual results were available. Centra suggested that the PGVA balance should be recovered, or refunded, by imposing an appropriate rate rider to the Transportation and Delivery Service rates.

If new rates were to become effective on December 1, 1999, Centra estimated that the December 31, 1999 PGVA balance would be $6,237,540. The year-end PGVA balance would increase to an estimated $12,738,540 if existing base rates were not changed until January 1, 2000, based on $3.43/GJ.

Pursuant to Board decisions resulting in approved rates in Order 118/99, rate riders related to existing 1998 deferral accounts were to end on December 31, 1999 for the SGC and LGC customers, and rate riders were to be implemented on April 1, 2000 for the HVF, Mainline and Interruptible customers. As a consequence, Centra's application also requested approval of interim rates to become effective on January 1, 2000 and April 1, 2000. The only change in these previously approved rates was a result of the estimated increase in Western Canadian Primary gas cost.

Centra submitted that this application was unique, in that Centra was only requesting that increased gas cost for Western Canadian supply flowing directly to market and to the Michigan storage facility be reflected in the new rates. Centra estimated all other 1999/2000 gas cost related to foreign exchange, various transportation tolls, fuel gas, supplemental U.S. supply and other miscellaneous charges would be approximately $4.8 million. Centra requested that these other gas costs not be considered at this time. Centra suggested that an application for these costs could be made in the spring of 2000, on a stand-alone basis, or in conjunction with anticipated filings related to the PGVA disposition, gas cost true-ups or future rate change applications.

Centra submitted that various embedded weighted gas costs, if approved for December 1, 1999 would have the following impacts on customer's annual bills.

CUSTOMER CLASS	$3.43/GJ	$3.27/GJ	$3.112/GJ	$3.003/GJ
Small General Class	9.7% to 11.0%	7.5% to 8.5%	5.4% to 6.1%	3.8% to 4.4%
Large General Class	10.4% to 14.8%	8.0% to 11.5%	5.8% to 8.2%	4.1% to 5.9%
High Volume Firm	12.5% to 15.9%	9.7% to 12.4%	7.0% to 8.9%	5.0% to 6.4%
Mainline	14.1% to 17.2%	11.0% to 13.4%	7.8% to 9.6%	5.6% to 6.9%
Interruptible	15.9% to 17.7%	12.4% to 13.7%	8.9% to 9.8%	6.4% to 7.1%

The following table indicates the impact by customer class of the planned removal of existing rate rider from the SGC and LGC customers on January 1, 2000 and the implementation of previously approved rate rider for the HVF, Mainline, and Interruptible Classes on April 1, 2000:

CUSTOMER CLASS	January 1, 2000 Impacts	April 1, 2000 Impacts
Small General Class	-1.3% to -1.4%	0%
Large General Class	-0.4% to -0.5%	0%
High Volume Firm	0%	4.1% to 5.0%
Mainline	0%	3.2% to 3.8%
Interruptible	0%	5.5% to 6.0%

6.0 Intervenors' Positions

6.0.1 CAC/MSOS

CAC/MSOS submitted that a basic principle, which the Board must consider, was whether or not to approve the use of forward price curve to estimate future gas costs. CAC/MSOS was of the view that the forward price curves was the best tool currently available for forecasting costs, as it reflected the perceptions of the market by the industry. The current market remains volatile, and while gas costs have approached record highs in the past several months, unit prices have recently softened. CAC/MSOS further suggested that if the use of forward price curves is adopted, the most current available data to forecast costs should be used, unless there were some unusual market circumstances in existence which would skew the prices. CAC/MSOS submitted that these circumstances were not present at this time and that the Board should therefore approve rates which embedded the most recent Western Canadian supply price. CAC/MSOS recommended that the blended price for Western Canadian supply of $3.27/GJ, the last known price at the time of closing argument, be reflected in new rate schedules to become effective on December 1, 1999. CAC/MSOS also suggested that more current price curves should be used to estimate gas costs, if known.

CAC/MSOS also recommended that the Board instruct Centra to file an application dealing with final 1999 gas costs once these costs were determined. As well, CAC/MSOS suggested that the disposition of the balances in the 1999 PGVA and other gas related deferral accounts, and the revision of primary gas unit prices be dealt with in the spring of 2000. CAC/MSOS further suggested that these matters should be dealt with preferably in one hearing, but in any event, should not require more than two separate hearings.

In response to a Board question at the close of his final submission, Counsel stated that CAC/MSOS would not object to the continuation of the SGC and LGC rate rider beyond

December 31, 1999 until the Board reviewed other gas cost matters in the spring of 2000. While CAC/MSOS wanted to minimize costs to consumers, they recognized that if rates dropped on January 1, 2000, they would likely have to be increased within a matter of months to accommodate new rate riders related to the disposition of the 1999 PGVA and other deferral account balances.

CAC/MSOS objected to the matter in which Manitoba Hydro was corresponding with the Board particularly respecting Manitoba Hydro's inability to meet Board imposed deadlines for numerous reports and other necessary filings. In the view of CAC/MSOS, this process resulted in Manitoba Hydro unilaterally amending Board Orders without the input or knowledge of other interested parties, and considered such actions to be inappropriate.

6.0.2 CENGAS

CENGAS expressed the view that gas costs embedded in sales rates must reflect or very closely approximate current market prices. In order for this to occur, Centra should make more frequent applications for changes to rates to reflect price changes in the market. Failure to do so would result in an uneven playing field, which could disadvantage either Centra or the other competitive market suppliers. CENGAS therefore supported Centra's application for increased rates, and suggested that the most recent data be used in determining the appropriate unit price for Primary Gas to be used in the December 1, 1999 rates.

CENGAS also suggested that the Board adopt a different process for reviewing and deciding on appropriate gas costs to be embedded in sales rates. CENGAS was of the view that gas cost change applications should be more frequent and suggested a "paper hearing". Under this process, the Board, upon receipt of an application by Centra, would inform all interested parties on record for the application and solicit any comments. The Board would review the application and any comments received, and render a decision on the matter, without the need for a public oral hearing at that time.

6.0.3 Griffin Canada Inc. ("Griffin")

Griffin supported Centra's application for increased gas costs, and suggested that the most recent data be used to determine the appropriate Western Canadian supply price. Griffin indicated that, under their buy/sell arrangement, the summer cost of gas was approximately $3.40/GJ, and suggested that Centra's request appeared to be reasonable. Griffin were of the view that the critical element was certainty in energy costs over the course of a year, as their quotes for product price, once offered, could not be increased to accommodate unanticipated gas cost increases. Griffin requested that consideration be given by Centra to a longer notice of potential curtailment to Interruptible customers. The current 2 hour notice was, in Griffin's view, inadequate, as it did not give them sufficient lead time to go to the market for spot gas. Griffin had the opinion that with adequate time, spot gas could be purchased at a cheaper rate than the cost incurred by switching to their alternate fuel propane system. Griffin also urged the Board to direct Centra to complete and file the report reviewing the value of the Interruptible customer to Centra.

6.0.3 Gerdau MRM Steel Inc. ("MRM")

MRM submitted that Centra's application increased gas costs to the Interruptible class in an unfair manner because the allocation of these gas cost increases was the same to all customer classes. MRM were of the view that this allocation failed to recognize the needs and special status of the Interruptible service. Additionally, because the Interruptible customers represent a minority of Centra's customers, they have less influence with the general public. However, Centra should financially recognize the purpose for which the Interruptible class was created and show its awareness of the burden of having an alternate fuel system.

7.0 Board Findings

The Board wishes to emphasize that the issues of price transparency and fair competition remain paramount in developing a competitive gas market for Manitoba natural gas users. Non-current Primary Gas rates will send false price signals to Centra customers and will result in an unfair advantage to Centra or the competitive community. As such, the most current price, forecast available to the public should be used by Centra to estimate gas costs. The Board notes that since the filing of this application, which was based on a September 24, 1999 forecast of $3.43/GJ gas cost, has decreased to $3.003/GJ in the November 24, 1999 gas cost forecast. Accordingly, the Board will require a blended gas cost of $3.003/GJ be used in determining rates for consumers. This represents a reduction in total annual gas cost of $24,323,000.

The Board is also concerned that the index used by Centra to calculate its Primary Gas costs is not accessible to the public, without subscribing to an electronic service. The Board is of the view that price transparency will be enhanced if such information is readily available to the public. The Board encourages Centra to investigate the possibility of making current market information available to all interested parties.

The Board recognizes the upward pressure on gas costs over the course of this year, and the continued volatility in the market place as evidenced by the $0.43/GJ decrease in gas costs between September 24 and November 24, 1999. The Board accepts that, given the current market circumstances, the use of forward price curves is a reasonable method to forecast future gas costs. In absence of a structured forecast the Board will accept prices based on the forward price curve for rate determination at this time however, continues to believe that a well researched and structured gas cost forecast is desirable.

The Board will order Centra to use an average Western Canadian supply price for Primary Gas of $3.049/GJ, which will result in an embedded price of $3.003/GJ in the sales rates to become effective based on meter readings for all gas consumed on and after December 1, 1999. As the Primary Gas Cost is the only gas supply component effected by this order, the Board will approve the allocation of the increased costs on an equal cents per unit basis to all customer classes.

The residual 1998 gas related deferral account balances are estimated to be approximately $1 million to $1.4 million. This amount does not include the balances to be assessed to the HVF, Mainline and Interruptible rate riders previously approved by the Board, scheduled to be implemented on April 1, 2000. While the SGC and LGC rate riders are proposed to be removed on January 1, 2000, the Board recognizes that other rate riders related to the residual balance in the 1998 and the forecasted 1999 gas related deferral accounts must be imposed in the near future. The removal of the SGC and LGC rate riders would reduce the typical residential gas bill by some 1.3%. Rather than see SGC and LGC rates increase on December 1, 1999, decrease on January 1, 2000 and then increase again around April 1, 2000, the Board will order that the existing SGC and LGC rate rider continues beyond January 1, 2000 and remain in effect until the Board considers Centra's next application in order to specifically discharge the residual balance in the 1998 deferral accounts.

The Board will require that an application be filed by Centra to determine rates to be effective April 1, 2000. The Board will expect this application to deal with 1998 PGVA balances, 1999 PGVA balances, and if necessary, updated Primary Gas Costs. The Board will also expect Centra to file its Price Management Policies and 1999/2000 Price Management Plan immediately following approval by Centra's Board.

The Board is concerned about the delays in complying with the requirement for filing a report assessing benefits the Interruptible class brings to the system. The Board heard representations from two Interruptible customers regarding the value of the Interruptible customer class to Centra's system and to other system customers. While the Board recognizes that the acquisition of Centra's shares by Hydro has caused some delays, the Board expects filings to be made on a timely basis. The Board will expect the report on the value of Interruptible customers by no later than March 1, 2000. The Board will also require that this report include recommendations with respect to giving Interruptible customers more notice of potential curtailment.

The Board agrees that the suggestion put forward by CENGAS respecting the use of a 'paper hearing" process to review and decide pass through type gas costs may have merit. The Board notes that no other parties commented on this suggestion in final submissions. The Board has in the past used the paper hearing process for some applications. Given the short or condensed time frame to consider this application, and the fact the application was filed as an ex parte application, the Board provided an oral hearing was in this instance, the most expedient process. The Board will therefore ask that all interested parties submit their comments on adoption of such a process as soon as possible. Subsequent to a review of the matter, the Board will determine if the use of a paper hearing process is warranted for these types of applications.

The Public Utilities Board

8.0 IT IS THEREFORE ORDERED THAT:

1. The application for approval for interim rates to become effective December 1, 1999 BE APPROVED subject to Centra Gas Manitoba Inc. filing revised gas cost, rate schedules, and customer impact tables to reflect an average Western Canadian Primary Gas supply price, weighted for gas flowing directly to market and to storage, of $3.003/GJ. The sales rates are to be effective based on meter readings for all natural gas consumer consumed on and after December 1, 1999, and continue until a further Order of the Board.

2. The existing rate rider for the SGC and LGC customer classes, originally intended to end on December 31, 1999 remain in effect until March 31, 2000 or a further Order of the Board.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"G. O. BARRON"
Secretary

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issued by The Public Utilities Board

Secretary

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