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ORDER No. 74/95

THE PUBLIC UTILITIES BOARD ACT)

JUNE 23, 1995

Before: G.D. Forrest, Chairman
Catherine Milner, Member
Glenda Russell, Member
W.C. Pearson, Q.C., Member

CENTRA GAS MANITOBA INC.

APPROVAL OF RATES

FLOWING FROM BOARD ORDER 49/95

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1.0 BOARD ORDER 49/95

Order 49/95, dated May 5, 1995 set out the decisions of the Manitoba Public Utilities Board (the Board) respecting an application from Centra Gas Manitoba Inc. (Centra) for:

1. Natural gas sales rates and transportation service rates to be effective for all natural gas consumed on and after January 1, 1995.
2. Determination of Rate Base, Rate of Return and Revenue Requirement based on a 1995 future test year including amended gas supply arrangements.
3. Confirmation of Interim Ex Parte Order 133/94 related to the authorization and use of certain gas supply deferral accounts.
4. Other related matters.

The Board ordered Centra to make a number of adjustments to the February 9, 1995 revised filing. As a result Centra was instructed to file revised calculations of Rate Base, Revenue Requirement, Cost of Service and rates to reflect all Board adjustments flowing from Order 49/95. The revised calculations were filed with the Board on June 14, 1995.

Board findings in Order 49/95 which have a direct impact on rates included:

1. The removal from Rate Base of:
 - a) an amount that would be required as a customer contribution for each 1994 customer attachment project which required main extensions in excess of 1,000 metres to achieve a revenue to cost (R/C) ratio of 1.00 by year 5.
 - b) all expenditures related to the Natural Gas Vehicle (NGV) program and Equipment Rental Program (ERP).
 - c) 1995 computer expenditures related to computer aided dispatch, CSS/CIS user interface, DFIS - Phase 2, DFIS - Phase 3 and SCADA projects.
2. Working capital allowance for cash requirements be adjusted to reflect all Board ordered adjustments, calculated in a manner consistent with the GRA.
3. Utility income be adjusted to remove all revenues and expenses related to the NGV program and ERP.
4. The request for approval of equipment rental rates in the schedule of other charges under the terms and conditions of service be denied.
5. A capital structure for rate setting purposes of 40 percent equity and 60 percent debt be approved.

6. The rate of return on equity be set at 12.12 percent and the overall rate of return be 10.80 percent for the 1995 future test year.
7. The use of effective degree days with a balance point of 13.9 degrees Celsius be used to calculate 1995 normalized volumes.
8. The volumetric adjustments for high efficiency furnaces and disconnected customers not be allowed.
9. The 1995 rates reflect a commodity cost of gas which will utilize a 1995 average NYMEX price of \$1.60 per Gigajoule (GJ).
10. Expenses related to the executive incentive package that are based on profitability be removed from revenue requirements.
11. The amortization expense be increased by \$269,000 for Operational Audit and Propane Storage Tanks and be decreased by \$1,660,200 for general rate applications.
12. The depreciation rates and resultant expense be adjusted to reflect removal of negative salvage value for transmission mains and distribution services and no change in the average service life for transmission mains, distributions services, regulators and meter installations, and measuring and regulating equipment.
13. Income taxes be recalculated to reflect all Board directives.
14. The R/C ratio for the Interruptible Class be maintained at 1.0220.
15. The deferral accounts, with revised short-term borrowing rate be disposed of on an interim basis.
16. Natural gas sales and transportation service rates be applicable for all gas consumed on and after January 1, 1995.

2.0 CENTRA'S FILING

2.1 Rate Base

2.1.1 1995 Net Utility Plant

In response to Order 49/95, Centra's filing contained the required adjustments to net utility plant to reflect the reduced 1994 customer attachment expenditures, removal of NGV program and ERP costs, removal of specific 1995 computer expenditures and reduced depreciation expense. The calculations resulting in 1995 net utility plant are as follows:

| | 1995 Requested | Adjustments | 1995 Approved |
|--------------------------------------|-----------------------|--------------------|----------------------|
| Average Plant | \$345,802,500 | (\$2,449,000) | \$343,353,500 |
| Accumulated Depreciation | (\$108,116,100) | \$217,200 | (\$107,898,900) |
| Disallowed Assets | (\$164,900) | \$0 | (\$164,900) |
| Contributions in Aid of Construction | (\$3,601,400) | (\$263,900) | (\$3,865,300) |
| Net Utility Plant | \$233,920,100 | (\$2,495,700) | \$231,424,400 |

2.1.2 Working Capital Allowance

Board directives in Order 49/95 necessitated changes in the calculation of working capital allowance for cash requirements and gas inventories, summarized by Centra as follows:

| Component | 1995 Requested | Adjustments | 1995 Approved |
|---------------------------------|-----------------------|--------------------|----------------------|
| Total Inventories | \$26,869,400 | \$1,071,400 | \$27,940,800 |
| Security Deposits | (\$806,900) | \$0 | (\$806,900) |
| Finance Contracts | \$4,465,700 | \$0 | \$4,465,700 |
| Cash Requirements | \$7,046,300 | (\$293,100) | \$6,753,200 |
| Total Working Capital Allowance | \$37,574,400 | \$778,300 | \$38,352,800 |

2.1.3 Rate Base Summary

As a result of the Board directed changes in net utility plant and working capital allowance, Centra's calculation of its 1995 allowed Rate Base is:

| | 1995 Requested | Adjustments | 1995 Approved |
|---------------------------|----------------|---------------|---------------|
| Average Net Plant | \$233,920,100 | (\$2,495,700) | \$231,424,400 |
| Working Capital Allowance | \$37,574,400 | \$778,300 | \$38,352,800 |
| 1995 Rate Base | \$271,494,500 | (\$1,717,400) | \$269,777,200 |

Centra's overall return on Rate Base of 10.80% based on a debt equity ratio of 60:40 was approved in Order 49/95.

2.3 Income Taxes

The income tax component of the 1995 revenue requirement as calculated by Centra to reflect Board adjustments directed in Order 49/95 is:

| | 1995 Requested | Adjustments | 1995 Allowed |
|---------------------------------|----------------|---------------|---------------|
| Income Tax - Existing Rates | \$23,652,300 | (\$1,515,100) | \$22,137,200 |
| Income Tax - Revenue Deficiency | (\$10,359,000) | \$1,024,700 | (\$9,335,200) |
| Total Income Tax | \$13,292,400 | (\$490,400) | \$12,802,000 |

2.4 Normalized Volumes

Centra's GRA requested approval for 1995 annualized volumes of 1,820,792 10^3 m^3 . The Board adjustments related to higher efficiency furnaces resulted in an increase in these volumes of 4,128 10^3 m^3 and the adjustment for disconnected customers increased the volumes by 355 10^3 m^3 while denial of the NGV and ERP programs resulted in volume reductions. As a result the 1995 normalized volumes are 1,824,564 10^3 m^3 .

2.5 Gas Costs and Gas Sales

Centra's calculation of the 1995 cost of gas and revenues at existing January 1, 1994 rates based on Board approved 1995 normalized volumes at 1,824,564 10³ m³ and a 1995 average NYMEX based price of \$1.60 per GJ is as follows:

| | 1995 Requested* | Adjustments** | 1995 Allowed |
|---------------------------|-----------------|---------------|---------------|
| Fixed Costs | \$49,612,600 | - | \$49,612,600 |
| Transportation | \$3,503,800 | \$169,400 | \$3,673,200 |
| Supply Costs | \$95,043,700 | \$6,426,800 | \$101,470,500 |
| Other | \$305,100 | \$9,300 | \$314,400 |
| Total Gas Cost | \$148,465,200 | \$6,605,500 | \$155,070,700 |
| Revenue at Existing Rates | \$287,077,700 | \$740,000 | \$287,817,800 |

* Based on \$1.483/GJ.

** Based on \$1.60/GJ.

2.6 Other Expenses

Operating and maintenance expenses decreased by \$1,328,500 to reflect the direct (\$1,122,700) and indirect (\$165,900) expenses related to the elimination of the NGV and ERP programs and \$40,000 for executive incentive bonuses related to company profitability.

Centra also recalculated its GRA amortization expense hearing costs, operation audit and propane storage tank expenses which resulted in a net decrease of \$1,387,500.

Depreciation expenses were also reduced by \$468,450 to account for revised negative salvage value and life expectancies of certain plant assets as ordered by the Board.

2.7 Summary of Revenue Requirement

Centra's calculation of the 1995 test year revenue requirement, which incorporates all of the Board's adjustments as set out in Order 49/95 is as follows:

| Component | 1995 Requested | Adjustments | 1995 Allowed |
|-------------------------------|-----------------------|--------------------|----------------------|
| Cost of Gas | \$148,465,200 | \$6,605,500 | \$155,070,700 |
| Operating Expenses | \$48,152,300 | (\$1,328,500) | \$46,823,800 |
| Amortization | \$3,742,200 | (\$1,387,500) | \$2,354,700 |
| Depreciation | \$12,070,500 | (\$468,400) | \$11,602,100 |
| Municipal and Other Taxes | \$12,312,800 | \$0 | \$12,312,800 |
| Income Tax | \$13,292,400 | (\$490,400) | \$12,802,000 |
| Return on Rate Base | \$29,511,500 | (\$375,600) | \$29,135,900 |
| Total | \$267,546,900 | \$2,555,100 | \$270,102,000 |
| Other Income | \$3,069,000 | (\$419,700) | \$2,649,300 |
| Revenue Required - Gas Sales | \$264,477,900 | \$2,974,800 | \$267,452,700 |
| Revenue at January 1/94 Rates | \$287,077,700 | \$740,000 | \$287,817,800 |
| Revenue Surplus | \$22,599,800 | \$2,234,800 | \$20,365,100 |

2.8 Revenue to Cost Ratios

The Board instructed Centra to design the 1995 rate schedules using the existing R/C ratio of 1.022 for the Interruptible Class, instead of the 1.029 which Centra had proposed in the GRA. The following table summarizes the R/C ratios last approved by the Board and those utilized in determining the 1995 rates.

| Customer Class | 1994 | 1995 |
|-----------------------|-------------|-------------|
| SGS | 0.979 | 0.980 |
| LGS | 1.032 | 1.031 |
| Special Contracts | 1.015 | 1.015 |
| Interruptible | 1.022 | 1.022 |
| Overall | 1.000 | 1.000 |

2.9 Annualized Customer Class Impacts

Board adjustments in Order 49/95 resulted in costs other than the cost of gas decreasing by \$4,050,400. Additionally the Board recognized that market driven gas costs had increased since the February hearings to the point where the average annual cost of gas on a unit basis had increased from \$1.483/GJ to \$1.60/GJ.

As a result, the average annualized change (with no rate riders) in total gas costs for each customer class compared to February 1, 1994 rates are:

| Customer Class | Change in Costs |
|-----------------------|------------------------|
| SGS | -4.31% |
| LGD | -10.18% |
| Special Contracts | 0.00% |
| Interruptible | -14.81% |
| Overall | -7.06% |

2.10 Deferral Accounts

The balances of six deferral accounts with carrying charges are to be disposed of through rate riders on the rates effective July 1, 1995 under Order 49/95. July 1, 1995 rates are to be retroactive for all gas consumed since January 1, 1995. Centra proposed to implement rates effective July 1, 1995 to recover the additionally required revenues for the SGS, Firm and Interruptible T-Service classes. Centra further proposed refunding by direct payments to each customer within the LGS and Interruptible Sales classes the over-collected revenues based on volumes consumed to June 30, 1995.

The Board accepts these proposals of Centra. Accordingly, the July 1, 1995 requested rates incorporate the deferral account balances but not the rate rider for retroactivity for the LGS and Interruptible Sales classes. The July 1, 1995 rates for SGS, Firm and Interruptible T-Service will contain the rate riders related to retroactivity in addition to the deferral accounts balances.

The following table summarizes the balances in each of the deferral accounts, and allocates each to appropriate customer classes.

| Deferral Accounts | | | | | | |
|---------------------|---------------|-------------|------------|-------------|------------|---------------|
| Description | SGS | LGS | Firm - T | Interr. | Interr - T | Total |
| 1993 PGVA | \$1,131,636 | (\$317,863) | \$352 | \$100,124 | \$1,898 | \$916,147 |
| Review Order Volume | (\$168,771) | \$131,015 | \$0 | \$396,959 | \$63,104 | \$422,307 |
| 1994 Heating Value | (\$279,845) | (\$218,789) | (\$3,137) | (\$60,923) | (\$20,737) | (\$583,431) |
| Gas Vol./Transp. | (\$1,268,496) | (\$993,936) | \$0 | (\$276,669) | \$0 | (\$2,539,101) |
| 1994 Cap. Release | (\$776,709) | (\$585,900) | \$0 | (\$113,707) | \$0 | (\$1,476,316) |
| 1994 PGVA | \$2,873,537 | \$1,280,156 | (\$19) | \$46,064 | (\$122) | \$4,199,616 |
| Totals | \$1,511,352 | (\$705,317) | (\$2,804) | \$91,848 | \$44,143 | \$939,222 |
| Volumes | 764,425.0 | 614,965.0 | 8,558.0 | 168,253.0 | 62,423.0 | 1,618,624.0 |
| Rider - Annual | \$1.9771 | (\$1.1469) | (\$0.3276) | \$0.5459 | \$0.7072 | \$0.5803 |

2.11 Actual Customer Class Impacts

The average change in annual energy bills and the range of impacts for each customer class relative to rates in effect January 1, 1995 when rates were reduced 4% on average, including Board

adjustments flowing from Order 49/95, the disposition of Deferral Accounts and rate retroactivity impacts is summarized below:

| Customer Class | Range of change |
|---------------------------|------------------------|
| SGS | 0.68 to 0.80% |
| LGS * | -4.38 to -6.18% |
| Firm T - Service | 2.73 to 8.23% |
| Special Contract | 0.00% |
| Interruptible ** | -8.80 to -9.07% |
| Interruptible T - Service | 14.47 to 17.10% |

* Additional refunds of \$8.50 per 10^3 m^3 for January 1 to June 30, 1995

** Additional refunds of \$10.10 per 10^3 m^3 for January 1 to June 30, 1995

3.0 BOARD FINDINGS

The Board has reviewed Centra's revised schedules and is satisfied that Centra's calculations and resultant rates properly reflect all of the Board's directives contained in Order 49/95. Consequently, the Board will approve the schedule of rates and additional charges attached as Appendix "A" and "B" to this Order.

4.0 IT IS THEREFORE ORDERED THAT:

1. The allowed 1995 test year rate base of \$269,777,200 BE AND IS HEREBY APPROVED.
2. The 1995 test year normalized and annualized revenue requirement \$270,102,000 BE AND IS HEREBY APPROVED.
3. For purposes of the 1995 PGVA, the weighted average cost of gas effective January 1, 1995 of \$1.60 per gigajoule BE AND IS HEREBY APPROVED.
4. The Schedule of Rates (including Rate Riders), 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 July 1, 1995 up to and including December 31, 1995 BE AND IS HEREBY APPROVED on an interim basis, pending final disposition of the deferral account balances.
5. The Schedule of Additional Charges , attached as Appendix "B" to this Order BE AND IS HEREBY APPROVED, on an Interim Basis.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 74/95
issued by The Public Utilities Board

Acting Secretary