

The Public Utilities Board

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250 Smith Street
Winnipeg, Manitoba
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MANITOBA

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Order No. 79/96

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THE PUBLIC UTILITIES BOARD ACT

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July 5, 1996

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

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN INTERIM EX-PARTE ORDER OF THE BOARD TO:

1. APPROVE A CHANGE IN BASE SALES RATES AND IN THE WEIGHTED AVERAGE COST OF GAS, EFFECTIVE FROM JULY 1, 1996 TO DECEMBER 31, 1996
 2. APPROVE, ON AN INTERIM BASIS, AN ADDITIONAL RATE RIDER, EFFECTIVE FROM JULY 1, 1996 TO DECEMBER 31, 1997, TO REFLECT THE INTERIM DISPOSITION OF THE 1996 PURCHASE GAS VARIANCE ACCOUNT.
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An Application By Centra Gas Manitoba Inc.

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An Application By Centra Gas Manitoba Inc.

1.0 Appearances

R. F. Peters	Counsel for the Public Utilities Board of Manitoba ("the Board")
J. E. Foran, Q.C.	Counsel for Centra Gas Manitoba Inc. ("Centra")
B. Graham	Counsel for the Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors ("CAC/MSOS")
J. Carstairs	Counsel for Municipal Gas Inc. ("Municipal")
J. Hatherly	Counsel for Direct Energy Marketing Ltd. ("Direct")

2.0 Witnesses for Centra

J. D. Brett	Vice-President, Gas Supply and Corporate Secretary
G. W. Meyer	Co-ordinator, Regulatory Affairs

3.0 Registered Intervenors

CAC/MSOS	Represented by B. Graham
Municipal	Represented by J. Carstairs
Direct	Represented by J. Hatherly
Enron Capital & Trade Resources Canada Corp.	

4.0 Background

By letter dated May 31, 1996, Centra applied to the Board to approve, on an interim ex-parte basis, a change in its weighted average cost of gas ("WACOG") and base sales rates to be effective July 1, 1996, and also to approve an additional rate rider to reflect the interim disposition of the purchase gas variance account ("PGVA").

In its application, Centra stated that the increase in rates is required solely to recover increased 1996 costs of Western Canadian supply gas. Centra stated that the requested rate increases will result in an approximate 8.8% increase in annual costs over the rate that is currently being billed to the typical residential customer, and that increases to the large general service and interruptible customers will be in the 10% to 20% range, depending on consumption.

Effective February 1, 1996, as a result of public hearings held in November and December 1995, Centra had reduced its 1996 sales rates. In Board Order 3/96 dealing with that rate reduction, the Board stated that:

"In approving these rates, the Board notes that the cost of gas embedded in these rates as applied for by the company are at the low end of the price spectrum. Variations affecting the final price to consumers will be determined by weather and market conditions over the next 11 months. The actual cost of gas will be taken into consideration at the time of the setting of the rates for 1997 and could well be higher than the gas costs embedded in the February 1, 1996 rates."

Because of the significant increase in gas costs in 1996, the Board declined Centra's request for an ex-parte application. All parties of record at the 1995 General Rate Application ("GRA") were notified and sent a copy of the application, a notice of application was published in newspapers throughout Manitoba, and a public hearing was held at the Ramada Marlborough Hotel in Winnipeg, Manitoba on July 2, 1996.

5.0 The Application

5.1 1996 Cost of Gas

A significant portion of Centra's gas supply portfolio is sourced in Western Canada, either by way of a long-term supply contract with TransCanada Gas Services Ltd. or on the spot market. Centra's Western Canadian gas supply cost is variable and 85% is indexed to the New York Mercantile Exchange ("NYMEX") natural gas futures market and 15% is indexed to the Canadian Gas Price Reporter ("CGPR").

The gas cost that is currently imbedded in the 1996 sales rates is \$1.343/GigaJoule ("GJ"). That amount was based on the average of the NYMEX settlement prices for the 20 trading days from October 30, 1995 to November 27, 1995.

In mid-December 1995, the 1996 NYMEX contracts began a dramatic increase in both price and volatility. The increases were due to the significantly colder than normal weather being experienced throughout North America. The sustained cold weather also caused North American storage inventories to be depleted to very low levels, resulting in the expectation of high storage refill requirements in the summer of 1996, causing summer prices to rise. The sustained upward pressure on prices has caused the NYMEX prices to rise for the 1996/97 winter months as well.

Centra has calculated an updated supply price based on actual prices for January through April, 1996 and NYMEX and CGPR indexed pricing for May through December, 1996. The NYMEX figures are an average of settlement prices for the 20 trading days from April 11 to May 8, 1996, with adjustments for basis differential and US exchange. These cost changes result in an average annual Western Canadian supply unit cost of \$1.707/GJ compared to the \$1.343/GJ imbedded in the current rates.

For the period July to December, 1996, the resulting average supply cost is \$1.690/GJ, representing an increase of \$0.347 /GJ, which is the increase being requested by Centra in this application.

Centra stated that although other cost increases are expected to occur, Centra is proposing to update only the Western Canadian supply cost in this application because Western Canadian supply costs are applicable to all customer rates on a flow through basis, with no customer class cost allocation issues to be addressed. The greatest portion of the expected balance in the PGVA account is attributable to this commodity cost increase, and all other components of the PGVA will be reviewed subsequently when the 1996 PGVA is further examined.

5.2 Interim Disposition of 1996 PGVA

The function of the PGVA account is to capture the difference between the actual cost of gas and the cost of gas imbedded in the sales rates. This ensures that the customer pays no more or no less than the actual cost of gas and that Centra will neither gain or lose as the cost of gas fluctuates. Centra advises that when the actual supply prices from January to April, 1996 and the estimated prices from May and June, 1996 are applied to the estimated volumes, a shortfall in gas cost recovery of approximately \$10.0 million is expected. Centra has requested that this shortfall be recovered through a rate rider over a period of eighteen months commencing July 1, 1996.

It was the testimony of Centra that:

"when the PGVA was established a few years ago, certainly the Centra witnesses at the time, without particularly defining the level, indicated that there was an amount which ought to operate as a trigger for disposition of the PGVA and, in the appropriate circumstances, disposition during the year rather than waiting to the end of the year. In our view, an amount approximating \$10 million exceeds an appropriate trigger level and that, accordingly, it would be appropriate to dispose of that at this time."

(Transcript page 23)

5.3 Forecasted 1996 PGVA Balance

Centra's application states that there have been and will be variances other than Western Canadian supply costs in the 1996 PGVA account. The residual balance at December 31, 1996 is forecasted to be \$2,685,000, owing by customers to Centra, representing the net of all applicable PGVA variances other than Western Supply costs, including the effects of higher volumes, increased use of storage and spot gas, and higher foreign exchange costs. Centra expects that the accumulated balance in other deferral accounts related to such things as capacity release credits and heating value plus related carrying charges will provide an offset to the expected residual balance in the PGVA. Centra is therefore suggesting that the residual balance of the PGVA account be dealt with at a later time, likely at the expected 1997 GRA.

6.0 INTERVENOR POSITIONS

6.1 CAC/MSOS

CAC/MSOS stated that there has been a dramatic increase in the cost of gas that cannot be ignored and is not in dispute. They believe that there is no indication that the forecast of \$1.70/GJ is unreasonable or imprudent, and it would therefore be "acting irresponsibly" to oppose any increase in the base rate. Although CAC/MSOS does not oppose the increase requested by Centra, they suggested that the method of forecasting gas costs might be looked at in the future.

On the matter of the PGVA account, CAC/MSOS recognizes that the balance in the PGVA account "is significant and of genuine concern", but suggested that the disposition of the account should be deferred and be dealt with in the context of the GRA in the fall of 1996. At that time the balance in the account will be more certain and a rate rider could be implemented in 1997, along with other rate adjustments that might come out of the GRA. In the alternative, if the Board was inclined to implement the rate rider effective July 1, 1996, CAC/MSOS is of the view that the eighteen month recovery period is appropriate.

6.2 Direct

Direct did not oppose the application for a rate increase and did not take a position with respect to the treatment of the PGVA. Direct is of the view that Centra, when forecasting gas costs, is sending incorrect price signals.

6.3 Municipal

Municipal argued that the PGVA account should be "cleaned up" in the 1996 fiscal year, and not carried forward to 1997. Municipal sought a six month rate rider to recover the estimated \$10.0 million that has accumulated. Municipal also made the point that the application is an example of the false commodity price signals that Centra could send to the market, and that the procedure of creating a PGVA account should be revisited. Municipal did not oppose the application for a rate increase.

7.0 Board Findings

The Board is of the view that the issues related to commodity market price signals raised by certain intervenors is a matter currently being considered by this Board in a separate hearing, and it would therefore be inappropriate to address this matter in any way in this Order.

The matter of the dramatic increase in the cost of Western Supply gas and the resulting impact on the PGVA account is a matter that was not disputed by any parties to the proceeding. There was no opposition by any intervenor to the requested increase in sales rates as a result of the increase in the cost of gas, nor was there any suggestion that the estimated balance in the PGVA account at the end of June, 1996 as a result of the increase in the cost of Western Supply should not be recovered. The only disagreement was the recovery period.

The Board is of the view that the requested increase in rates for the period July 1, 1996 to December 31, 1996 as a result of the forecasted increase in the average cost of Western Supply gas to \$1.690/GJ should be approved for all gas consumed on and after July 1, 1996. The Board is also of the view that an interim disposition of the estimated June 30, 1996 PGVA balance by way of a rate rider should be approved, based on an eighteen month recovery period commencing July 1, 1996. The prudence of costs included in the 1996 PGVA will be examined at a later date.

Because Centra has made known its intention to file a GRA for 1997 rates, and because the issues of rates will be further addressed at the GRA public hearing in the fall of 1996, the interim rates flowing from this Order will be approved only until December 31, 1996. It is expected that a new schedule of rates will be implemented to be effective January 1, 1997.

The Board is satisfied that Centra has justified, on a prima facie basis, the need for a rate increase at this time. Centra, consistent with its gas cost determination practice, has adequately demonstrated to the Board that market prices have increased since the beginning of 1996 and currently continue to be higher than the gas cost embedded in existing sales rates. The Board accepts the position agreed to by all intervenors that rates should be adjusted at this time to minimize the continuing build up of the PGVA that otherwise would occur if \$1.343/GJ remained embedded in rates.

Accordingly, the Board will approve Centra's application for interim rates. Centra will be required to provide full particulars of its natural gas costs for 1996 at a later date, likely at the 1997 GRA.

8.0 IT IS THEREFORE ORDERED THAT:

1. The requested rate schedule for firm sales and firm T-Service, attached as Appendix A, BE AND IS HEREBY APPROVED ON AN INTERIM BASIS FOR ALL BILLINGS BASED ON GAS CONSUMED FROM JULY 1, 1996 TO DECEMBER 31, 1996.
2. The requested rate schedule for interruptible sales and interruptible T-Service, attached as Appendix B, BE AND IS HEREBY APPROVED ON AN INTERIM BASIS FOR ALL BILLINGS BASED ON GAS CONSUMED FROM JULY 1, 1996 TO DECEMBER 31, 1996

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"

CHAIRMAN

"G. O. BARRON"
Secretary

Certified a true copy of
Order No. 79/96 issued by
The Public Utilities Board



Secretary

Schedule 2.1.1
 July 1, 1996
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CENTRA GAS MANITOBA INC.

Firm Sales and T-Service
Interior Rate Schedule

Territory: Entire natural gas service area of the Company, including all zones.

Availability: SGS - For gas supplied through one domestic sized meter on a firm basis.

LGS & T-Service - For gas delivered through one meter other than domestic sized meters on a firm basis.

Rate: Fixed Monthly Charge:
 SGS Sales \$10.00 per Month
 LGS and T-Service 30.00 per Month

SGS Sales (/m ³)	LGS Sales (/m ³)	LGS T-Service
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Categories:

SGS Sales \$0.1684

LGS Sales and T-Service

Class 4		
- 0 to 680,000 m ³ Annually	\$0.1247	0.0319
Class 3		
- 680,000 to 1,700,000 m ³ Annually	0.1230	0.0299
Class 2		
- 1,700,000 to 3,400,000 m ³ Annually	0.1222	0.0291
Class 1		
- Over 3,400,000 m ³ Annually	0.1217	0.0285

Special Contract Fixed Monthly Charge 47,200.00
 Special Contract Commodity Charge 0.0016

Minimum

Monthly Bill: Equal to the Fixed Monthly Charge as described above.

Late Payment

Charge: A late payment charge of 1 1/2% per month shall be charged on the dollar amount owing after each billing due date. The due date will be at least 21 days after the mailing date of the bills.

Effective: Rates to be charged for all billings based on gas consumed on and after July 1, 1996.

Schedule 2.1.2

July 1, 1996

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CENTRA GAS MANITOBA INC.

Interruptible Sales and Interruptible T-Service
Interim Rate Schedule

Territory: Entire natural gas service area of the Company, including all zones.

Availability: For any customer at one location whose natural gas requirements equal or exceed annual rate of 340,000 m³ and who contract for such service for a minimum of one year. Sales under this rate shall be limited to the extent that the Company considers it has available natural gas supplies.

Service: Shall be agreed upon by contract between customer and Company recognizing, among other factors, the size and characteristic of customer's requirements, amount of facilities required to be constructed by Company, minimum purchase obligation of customer, priority of delivery service, and term of contract. The contract shall be filed with The Public Utilities Board.

Rates:	<u>Categories:</u>	<u>Sales</u> <u>Rate</u> (/m ³)	<u>T-Service</u> <u>Rate</u> (/m ³)
	Class 4 - 340,000 to 680,000 m ³ Annually	\$0.0999	\$0.0235
	Class 3 - 680,000 to 1,700,000 m ³ Annually	0.0969	0.0212
	Class 2 - 1,700,000 to 3,400,000 m ³ Annually	0.0961	0.205
	Class 1 - Over 3,400,000 m ³ Annually	0.0959	0.0197
	Peaking Supply - Actual Cost of Peaking Gas Delivered Plus a Delivery Charge of	0.0208	N/A

Late Payment Charge: A late payment charge of 1 1/2% per month shall be charged on the dollar amount owing after each billing due date. The due date will be at least 21 days after the mailing date of the bills.

Effective: Rates to be charged for all billings based on gas consumed on and after July 1, 1996.