The Public Utilities Board

2nd Floor
280 Smith Street
Winnipeg, Manitoba
R3C 1K2

MANITOBA	)	Order No. 8/97
	)	
THE PUBLIC UTILITIES BOARD ACT	)	February 20, 1997

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

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN ORDER OR ORDERS OF THE BOARD APPROVING:

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.

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1.0 Appearances

R.F. Peters K.L. Kalinowsky	Counsel for the Public Utilities Board of Manitoba (the Board)
J.E. Foran, Q.C.	Counsel for Centra Gas Manitoba Inc. (Centra)
J. Hayden G. Wilcox	Representing the Communications, Energy, and Paperworkers Union (CEPU)
B.J. Meronek, Q.C. R.J. Graham	Counsel for the Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors (CAC/MSOS)
P. Budd	Counsel for Direct Energy Marketing Ltd. (Direct Energy)
D. Foreman	Representing the Heating Ventilating and Air Conditioning Coalition (HVAC)
J. Carstairs	Counsel for Municipal Gas Company (Municipal)

2.0 Witnesses for Centra

Hon. O.E. Lang	President and Chief Executive Officer
J.D. Brett	Vice President, Gas Supply and Regulatory Affairs and Corporate Secretary
H.M. Kast	Vice President, Finance & Administration
P.C. Consul	Vice President, Engineering & Distribution Operations
R.T. Fennell	Vice President, Customer Service
G.B. Whitehill	Controller
I.D. Anderson	Manager, Regulatory & Strategic Planning
G. Meyer	Manager, Rates
G. Barnlund	Manager, Industrial/Large Commercial Markets
B. Klippenstein	Manager, Gas Supply
G. Neufeld	Manager, Gas Forecasts & Gas Supply Administration

3.0 Intervenors

CEPU	Represented by J. Hayden & G. Wilcox
CAC/MSOS	Represented by B.J. Meronek, Q.C. and R.J. Graham
Direct Energy	Represented by P. Budd
HVAC	Represented by D. Foreman
Municipal	Represented by J. Carstairs
Simplot Canada Ltd.	Represented by G. Collis
Midwest Food Products	Represented by V. Funk
Trans Canada Gas Services	Represented by M. Stauft

4.0 Presenters

B. Fedak, Citizen

G. Shepert, Gerdau MRM Steel

D. Weland, Griffin Canada Inc.

5.0 Background

Centra's last General Rate Application (GRA) was based on 1995 future test year data and was the subject of Order 49/95 dated May 5, 1995 and Order 74/95 dated June 23, 1995. Those Orders approved interim rates from July 1, 1995 to December 31, 1995 and included, in addition to the 1995 test year revenue requirement, rate riders related to disposal of the balances in various 1993 and 1994 deferral accounts on an interim basis. A further rate rider was included to allow Centra to recover the total 1995 test year revenue requirement for 12 months over the six months that the interim rates were to be in effect.

Centra applied to the Board on September 22, 1995 for approval of annual 1996 base rates. Centra also applied for approval of interim rates for 1996 to include rate riders related to the disposition of the estimated balances of the 1995 Purchase Gas Variance Accounts (PGVA), non-traditional revenue and heat value margin deferral accounts. In Order 3/96 dated January 6, 1996, the Board approved interim rates based on Centra's application, adjusted for certain Board ordered changes. The approved interim rates included a 1995 test year revenue requirement, amended for forecast 1996 gas cost and rate riders to dispose of the estimated balances of the three 1995 deferral accounts. Because the rates became effective on February 1, 1996, an additional rate rider was included to allow the recovery of 12 months of revenues over the remaining eleven months of calendar year 1996. These rates also reflected the removal of rate riders related to 1993 and 1994 deferral accounts.

Centra had projected a 1996 revenue deficiency of $900,400 based on continuation of the 1996 annual base rates. Centra suggested that the cost of a 1996 GRA would be greater than the projected revenue deficiency and therefore did not file a 1996 future test year GRA application. In Order 3/96, the Board instructed Centra to refile 1996 information related to return on equity in conjunction with the 1997 GRA.

On May 31, 1996, Centra applied to the Board for approval of a change in the weighted average cost of gas (WACOG) and resulting base rates to be effective July 1, 1996. This application also included a request to approve, on an interim basis, a rate rider to dispose of the estimated balance in the 1996 PGVA. Centra submitted that the application was necessary as a result of the dramatic increase in the price of gas supplied from Western Canada and the resulting impact on the 1996 PGVA. In Order 79/96 dated July 5, 1996, the Board approved rates to be effective for all billings based on gas consumed from July 1, 1996 to December 31, 1996. The 1996 PGVA rate rider was calculated on the assumption that the estimated balance in the PGVA related to the increase in Western Canadian supplied gas as at June 30, 1996 would be recovered from customers over an 18 month period ending December 31, 1997. The July 1, 1996 interim rates included the continuation of rate riders previously approved.

Centra also filed an application requesting Board approval for a new cost of service methodology and rate design. In Order 107/96 dated October 17, 1996, the Board approved the cost of service methodology and approved the proposed customer classes. The Board did not grant specific approval for a three part rate because of a concern of the potential impact on customers within the classes affected by the new rate structure. The Board instructed Centra to inform all such customers of the potential impact of this change and the Board undertook to further review the matter at the 1997 GRA hearing.

On August 16, 1996, Centra applied to the Board requesting approval of a 1997 rate base and resulting 1997 rates and the disposition of the balances of various gas cost related and other 1995 and 1996 deferral accounts. Subsequently, cost allocation and rate information was filed with the Board in support of this application for rates to be effective January 1, 1997. A public hearing commenced in Winnipeg on November 12, 1996, and final argument was heard on December 10, 1996.

New rates were required for January 1, 1997 because the rates approved in Board Order 79/96 expired on December 31, 1996. In Order 125/96 dated December 20, 1996, the Board approved interim rates to be based on all billings for gas consumed on and after January 1, 1997. These rates incorporated the result of forecast gas costs for the 1996/97 gas year, and rate riders dealing with all 1995 and 1996 deferral accounts previously considered by the Board.

6.0 Rate Base

6.1 General

The Board approved a 1995 Rate Base for Centra of $269,777,200 in Order 49/95. Centra's application compares the various components of the approved 1995 Rate Base to the actual 1995 Rate Base and provides details of the 1996 and 1997 Rate Base. The table below summarizes the components of the 1995 Approved, 1995 Actual, 1996 Bridge Year and 1997 requested Rate Bases, calculated on a 13 month average basis.

	(in 000s)				
	1995 Approved	1995 Actual	1996 Bridge Year	1997 Test Year	Increase 1997 from 1995 Approved
Gas Plant in Service	$343,353.5	$338,414.8	$355,985.3	$387,253.5	$43,900.0
Accumulated Depreciation	(107,898.9)	(105,844.9)	(108,610.7)	(119,957.0)	(12,058.1)
Disallowed Assets (Net Book Value)	(164.9)	(165.8)	(143.6)	(122.8)	42.1
Net Plant	235,289.7	232,404.1	247,230.9	267,173.7	31,884.0
Contributions in Aid of Construction	(3,865.3)	(5,827.2)	(18,956.7)	(24,403.6)	(20,538.3)
Working Capital Allowance	38,352.8	36,389.0	36,462.6	33,498.6	(4,854.2)
Total Rate Base	$269,777.2	$262,965.9	$264,736.8	$276,268.7	$6,491.5

6.2 Priorization of Capital Projects

Centra priorizes its capital expenditures into Essential, Necessary and Justifiable categories. In assessing priority, some elements of a capital project may be included in more than one classification. In such cases, the appropriate category is the one that best matches the predominant requirements of that project. Centra has changed and expanded the previous definitions of the priority classifications in this application to be as follows:

> Essential - This category includes projects that are predominantly driven by the requirements of safety and reliability of service. Centra Manitoba will ensure compliance with all appropriate design, construction and operating specifications, industry codes, regulations and standards, as well as Corporate policies on worker safety, health and the environment. Typical projects include improvements or additions to the gas transmission and distribution system, or expenditures for equipment and facilities that are directly related to safety and reliability of service.

> Necessary - Capital projects in the category are required to maintain facilities in adequate operating condition to meet anticipated activity levels (maintenance of business). Projects in this category

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maintain prudent operating standards or relieve situations where equipment has reached a stage of functional obsolescence. Projects of this nature include distribution system maintenance projects and support/enabling facilities such as equipment, office furniture, tools or other like expenditures.

Justifiable - Capital expenditures in this category include projects that are warranted due to economic or other qualitative benefits. Typical projects include those which result in additional revenues, lower expenses, productivity improvements and/or improvements in value added customer service. This includes expenditures for the attachment of new customers, development of new solutions necessary due to economic obsolescence, or to respond to customer needs in a prudent, cost effective way.

Centra stated that the main change is in the Necessary classification which has been expanded to include functional obsolescence previously categorized as Justifiable, whereas the Justifiable category will now encompass economic obsolescence.

The total capital expenditures for 1995, 1996, and 1997 by priority are as follows:

Priority	(in 000s)			
	1995	1996	1997	Total
Essential	$ 0.0	$ 197.4	$ 176.6	$ 374.0
Necessary	4,106.6	4,723.1	8,885.8	17,715.5
Justifiable	19,923.0	33,005.7	14,937.8	67,866.5
Total	$24,029.6	$37,926.2	$24,000.2	$85,955.9

The expenditures show actual and/or estimated project costs during the respective test years as opposed to the thirteen month average, used to calculate the gas plant in service element of Rate Base. Additions to plant in 1996 and 1997 are primarily attributable to increased investments within the transmission and distribution plant accounts to support load growth and system betterment projects. The significant increase in the justifiable category in 1996 is attributable to the rural gas system expansion.

6.3 1995 Gas Plant in Service

The variance between the 1995 approved amount of $343.4 million and the actual total of $338.4 million for gas plant in service is primarily attributable to rural gas expansion expenditures of approximately $11.3 million which were more than offset by reductions in other capital expenditures as well as the impact of the retirement of the propane peak shaving plant and removal of its residual book value of approximately $6.8 million from 1995 actual Rate Base. The 1995 approved Rate Base had excluded any expenditures related to rural gas expansion.

In this application, Centra requested Board approval for the retirement of the propane peak shaving facility and the removal of its residual net book value from Rate Base. Centra proposed to amortize the residual amount over a 12 year period with carrying costs at the approved overall rate of return. The Rate Base calculations submitted in this application reflect Centra's proposed treatment of this facility. Centra filed a report in support of the retirement of the facility indicating that a comprehensive analysis conducted by

Centra of the alternatives for peak shaving supply showed that the use of natural gas for this purpose was most economical and was practical in today's gas supply environment. The study further concluded that the benefits of the propane facility were no longer as significant as they had been. The net present value calculation in support of retiring the propane facility showed a positive economic advantage of $7.0 million over 30 years and a positive economic impact on customers of $9.2 million, on a non-discounted basis, over ten years.

Expenditures for system betterment, originally forecast at $5.1 million, were actually $2.7 million. Centra explained that the decrease was due to lower contract labour costs, fewer services requiring upgrades and the effect of the 1995 labour disruption. Additionally, the Steinbach main relocation project was not as extensive as fewer than anticipated services required reconstruction, and Centra was reimbursed for this work by the Town. The odorant bulk storage containment project and cathodic protection project were also deferred to future years.

6.4 1996 Gas Plant in Service

Centra did not apply to the Board for approval of a 1996 Rate Base. As a consequence, the Board reviewed the prudency of the 1996 capital expenditures at this hearing. Centra is seeking final approval of 1996 base rates reflecting these expenditures in conjunction with the 1997 future test year application. It was acknowledged by Centra that if the Board did not accept the prudency of the 1996 Rate Base additions, these expenditures should be disallowed from Rate Base.

Total plant additions for 1996 amounted to $37.9 million including approximately $15.5 million related to the rural gas expansion project in Southeast and Southwest Manitoba. A total of $13.5 million in contributions in aid of construction was provided for the rural expansion project by the Canadian and Manitoba Governments, municipal governments and customers. The rural gas expansion project was priorized in the justifiable category.

Other major capital projects, priorized into the classifications are as follows:

Capital Project	Priorization	Expenditures (000s)
System Load Growth	Justifiable	$6,495
Brandon Facilities Upgrade	Justifiable	$3,879
Distribution System Upgrades	Necessary	$2,736
Computer Aided Dispatch	Justifiable	$2,292
McCain Upgrade Project	Justifiable	$955
Computer Hardware Purchases	Necessary	$875
Southport Project	Necessary	$261
35 Sutherland Elevator	Justifiable	$731
Vehicle Purchases	Justifiable	$682
Regulator Station Upgrading	Necessary	$645
Automated Meter Reading Project (ERTs)	Justifiable	$298
Other Miscellaneous	Justifiable	$2,608

Centra added 4,918 new customers through new additions and appliance conversions primarily associated with the rural expansion program. Other 1996 high volume customer additions were the Pineland Forest Nursery and the McCain and Simplot plant expansions. The Brandon facilities upgrade project served to provide additional capacity required by Simplot and to provide service to the Southwest rural gas expansion project.

The replacement program for compression couplings (Dressers) was substantially completed in 1996. Other system betterment programs such as upgrading of regulator stations were required in order to satisfy updated code requirements or to relocate stations due to encroaching development.

Centra embarked on a computer aided dispatch (CAD) project subsequent to a business case study that investigated existing problems with the manual dispatch system. The study concluded that the installation of computer hardware and software that automated the dispatch and service order processes was necessary. This system would allow on-line shift personnel to automatically calculate available time resources for making appointments, allow assignment of orders to field personnel based on geographic location, qualifications and availability and schedule retrieval of outstanding work by area to allow for booking of appointments and completion of orders. Such a system would allow greater customer service efficiency. Benefits included reduced paperwork, reduced "cannot get ins", increased service personnel productivity, reduced overtime, improved customer satisfaction by offering appointments and meeting commitments, improved safety by expediting the process to dispatch personnel to emergencies and improved decision making. The system was implemented at an estimated cost of $2.292 million, exclusive of in-truck terminal installations required for full system operation. A cost benefit analysis showed a negative NPV of $76,000, while the customer impact over ten years is a negative $93,000 over the same period. Notwithstanding this negative NPV, Centra urged the Board to approve the inclusion of this project into Rate Base since the intangible benefits, primarily related to customer service, were important for the consumers and for Centra. Centra indicated that the CAD system was currently 95% operational.

The operations facility at 35 Sutherland has undergone a number of improvements over time, and the installation of an elevator was completed in 1996 at a total cost of approximately $730,900. Centra justified the installation of the elevator as being the optimum solution. The original cost estimate was $248,000 plus overhead charges. The significant cost escalation was attributable to contaminated soil and water at the site that required substantial remediation to meet Manitoba Department of Environment standards.

Centra replaced 23 vehicles totalling $682,000. This consisted primarily of customer service vans and heavy trucks for maintenance purposes, and was in accordance with the criteria outlined in Centra's vehicle policy.

An Off-Site Meter Reading Program (OMR) was initiated which allows for electronic meter reading once an Encoder, Receiver and Transmitter Unit (ERT) is installed. The OMR project was initiated in response to meter inaccessibility problems, and resulting bill estimating inaccuracies. Other identified problems which could be improved were meter access problems, billing integrity, productivity, personel safety and customer service. There are approximately 72,000 indoor meters which are difficult to access and the initial phase of the OMR project will involve the installation of 8,400 ERTs at some of the problem locations. Centra indicated that it intends to proceed with the initial program by targeting the high priority "cannot get in" locations. Centra proposes to conduct a further business case to determine whether the OMR project should be expanded. Witnesses for Centra noted that it did not have a specific vision to advance about the future direction of remote readings and was instead engaging in a shorter term operational solution. Installation of ERTs in 1996 and 1997 will cost an estimated $798,200. Other alternatives to the OMR project identified included relocating indoor meters to outside locations, customer call-in programs, additional staffing and telephone based OMR in conjunction with other utilities. The financial feasibility of the OMR project shows a negative NPV of $124,000 with the regulatory impact model of negative $166,000.

Other expenditures include acquisition of computer hardware, software and application development costs. In addition, Centra spent about $1.728 million on some 20 different types of expenditure for furniture, general tools and equipment, leasehold improvements, security and miscellaneous system improvements.

6.5 1997 Gas Plant in Service

Total plant expenditures in 1997 are estimated to be $24.0 million. The majority of the rural gas expansion project was completed in 1996 with approximately $333,000 of expenditures estimated for 1997 included in system load growth.

The major expenditures, by priority category, forecast for 1997 are:

Capital Projects	Priorization	Expenditures (000s)
System Load Growth	Justifiable	$7,319
Altona-Winkler Transmission Line	Justifiable	2,771
IPL Project	Justifiable	2,321
Ste. Agathe Expansion	Justifiable	1,705
System Upgrades	Necessary	1,577
Vehicle Replacements	Justifiable	991
Regulator Station Upgrading	Necessary	881
Industrial Telemetry	Necessary	750
Brandon Reg. Stations	Necessary	745
Cathodic Protection	Necessary	541
OMR Project	Justifiable	500
SCADA Hardware	Necessary	616
Computer hardware/systems	Justifiable	565
Annabella Improvements	Necessary	186
Heavy Equipment	Necessary	200
Vacuum Excavator	Justifiable	160
Operations Building	Necessary	128
Carbon Monoxide Detectors	Essential	177
Miscellaneous System Improvements	Various	490
Other	Various	1,377

The only project categorized as Essential is the purchase of 61 carbon monoxide detectors at a cost of $176,600.

Centra estimates that 3,187 new customers will be added to its distribution system in 1997, approximately 214 of which will be in the new rural gas expansion project areas. Centra indicated that it would provide service to InterProvincial Pipelines (IPL) for an inline natural gas fired heater for its oil pipeline at a total estimated cost of $2,231,000 and to a new canola crushing plant at Ste. Agathe for an estimated cost of

$1,705,000. Centra testified that load growth in the Altona, Morden and Winkler areas of the province necessitated the installation of 17 miles of 6 inch transmission main, parallelling an existing 4" main.

System betterment programs in 1997 are to include upgrades and/or replacement of mains, services and meters to maintain or enhance system capacity, accommodate sporadic customer growth and improve system integrity and safety. Centra stated that such programs, estimated at $1,576,800 would reduce overall system distribution maintenance costs.

Other system upgrades include the continuation of regulator station replacements or retrofits to satisfy updated code requirements and to conform to necessary distance separation as a result of encroaching developments. The 1997 capital projects also include the expenditures necessary for the elimination of three of nine regulator stations and the upgrading of the remaining six on the Brandon distribution system. Centra contends that this optimization is necessary to increase operating pressures required because of load growth, to eliminate obsolete equipment and to enhance system safety.

Estimated vehicle replacement costs of $991,000 include the replacement of 31 vehicles, primarily for the customer service and maintenance operations departments. Centra submitted that all vehicles to be replaced were purchased no later than in 1992 and all had travelled at least 100,000 kilometers. Centra contended that these replacements were in accordance with the vehicle policy and that the program would result in cost efficient fleet operations.

The OMR project is the continuation of the program commenced in 1996. The computer hardware purchases consist primarily of 49 personal workstations and associated hardware, while the purchase of eight servers to accommodate local area network growth is estimated to cost $200,000.

Centra proposed several new programs for 1997, including industrial telemetry. Centra submitted that the installation originally intended to be commenced in 1996 at a cost of $750,000 is necessary to allow for the implementation of the new three part rate for approximately 150 customers. The proposed rates require the monitoring of each customer's daily demand. Additionally, this metering is required to ensure compliance with curtailment orders issued by Centra for its Interruptible customers. Another new program proposed for 1997 is the development and installation of remote monitoring systems on the distribution plant to allow for automatic daily, as opposed to manual bi-monthly monitoring of steel pipe cathodic protection. Centra submitted that this would minimize downtime, extend service life of the pipe and facilitate the prioritization and scheduling of maintenance activities.

Another expenditure involves the purchase of computer hardware and modifications to the dispatch to accommodate a new SCADA system for an amount of $616,200. A related expenditure of $155,200 is requested for the installation of additional pressure monitoring and remote telemetry units. This will allow for the continued and increased monitoring of system operating pressures and throughput. Centra indicated that the existing system is nearing the end of its useful life and that the vendor will withdraw technical support by 1999. The existing software cannot be modified to handle the "turn of the century" properly. Centra further indicated that it is currently preparing a request for proposals to replace the entire system with additional costs estimated at $1.5 million. The implementation and acceptance phase of the project is expected to commence in 1997, with system development costs included as construction work in progress at this time, until the system is put into service, estimated to be in 1998.

Centra also proposed improvements to its Annabella Street properties, to include modifications to an existing building and construction of a new building to provide increased space to relocate construction and welding staff from the Sutherland Avenue site. Additionally, a new building to house pre-tested pipe is proposed as are site services. Centra also proposes to completely replace the roof of the operations building at the Sutherland Avenue site which is now 27 years old an is beyond any other form of rehabilitation.

Miscellaneous expenditures are forecasted for furniture, general tools and equipment, miscellaneous office and parking lot improvements, system security, NGV conversion kits, and miscellaneous isolated system improvements. These are estimated to be $1,376,400 for 1997.

6.6 Other Plant Expenditures

6.6.1 Rural Expansion Projects

In conjunction with the Canada-Manitoba Infrastructure Works Program, Centra embarked upon a rural expansion project in 1995 to bring natural gas service to 14 communities in Southeastern and Southwestern Manitoba. Board Order 37/95 dated April 5, 1995 approved the feasibility study and the franchise agreements. The Board also ordered that separate rate bases, costs, and other financial data be filed on a community-by-community and year-over-year basis in future rate base filings.

Centra stated that construction is substantially complete and gas is now available in all communities. Centra indicated that costs were close to budget on an overall project basis and that reporting mechanisms are in place to track capital costs by eligible community group. Systems are also in place to track existing and new customer sign-ups. Centra anticipated that final reports would be filed with the Board in early 1997.

Construction was delayed in the spring of 1996 due to the bankruptcy of GM Gest (Gest), one of Centra's pipeline contractors. The bankruptcy resulted in additional costs of $273,000 required to complete work remaining in Gest's contract for installation of steel mains. Centra witnesses testified that Centra followed its normal internal process for qualifying bidders prior to awarding the contract. Gest had a history of providing satisfactory work on behalf of Centra, but it became apparent during the construction that Gest was in financial difficulty.

As is the norm, Centra retained holdbacks in respect of progress payments to Gest for work completed under the contract. When reviewing the status of the project, Centra initially estimated that the holdback funds were sufficient to cover the cost of the remaining works. Subsequently, Centra discovered that Gest had not accurately reported the extent of completed work, and the holdback of $150,000 was not sufficient to complete the work. Centra decided not to call on Gest's performance bond to cover these works, as in Centra's opinion, this action would have significantly delayed payment of valid claims to Gest's suppliers and other sub-contractors, many of whom were small Manitoba businesses. Centra submitted that it had increased the monitoring of Gest's activities once the potential financial difficulty was discovered and had limited losses from that point onwards. Centra stated that it had negotiated an agreement with the bonding company in respect of the other contract which had also been awarded to Gest for installation of polyethylene pipe.

In 1994, Centra launched the Distribution Facilities Information System (DFIS) to improve the quality and timeliness of the gas main facility maps available to field and office personnel involved in locating underground gas distribution facilities. Phase I was implemented but Phase II was cancelled after the Board, in Order 49/95 disallowed its inclusion into rate base, since no cost benefit analysis was performed. Phase III of DFIS is contained in construction work in progress (CWIP) with the plan to fully install the system in 1998. Centra indicated that it would apply in the future to the Board for its inclusion into Rate Base. DFIS Phase III is designed to correct system maps in vector information that can be read by computers. Centra is also investigating the possibility of DFIS Phase IV.

6.6.2 Information Technology

Centra is not launching any new information technology strategies in 1997, but rather plans to continue the initiatives related to computer hardware and software and computer development software commenced in prior years.

Centra filed an Information Technology (I/T) update to demonstrate the direction and activity of the Company in this area. Two types of I/T activity are being pursued: (1) strategic initiatives which are long term endeavours related to information systems and infrastructure and (2) delivery of client solutions that are focussed on a specific business application or process.

Centra filed its 1995-99 Information Service Strategic Plan in the 1995 GRA which contained a five year plan for I/T objectives. This plan was examined in detail at the 1995 GRA. In this GRA hearing, witnesses for Centra stated that the objectives identified previously remain unchanged and Centra has implemented these objectives over the past two years. Centra expects a new I/T plan to be finalized early in 1997 as part of its updated five year Strategic Plan.

6.6.3 Gross Plant

The 1996 and 1997 plant additions, net of retirements and adjustments, are forecast to increase gross plant by $24.625 million and $24.408 million, respectively, as shown in the following table.

	(In 000s)								
Plant Account	1995 Year End	Additions	Retire-ments	Adjust-ments	1996 Year End	Additions	Retire-ments	Adjust-ments	1997 Year End
Intangible	$229.9	$0	$0	$0	$229.9	$0	$0	-	$229.9
Storage	93.5	0	0	0	93.5	0	0	-	93.5
Transmission	28,711.4	14,342.6	10.0	0	43,044.0	5,883.5	10.0	-	48,917.5
Distribution	267,419.8	18,179.1	622.3	0	284,976.6	14,686.7	689.4	-	298,973.9
General	44,245.4	5,404.5	1,810.5	0	47839.4	3,430.0	1,093.9	-	50,175.5
Sub Total	340,700.0	37,926.2	2,442.8	0	376,183.4	24,000.2	1,793.3	-	398,390.3
Construction work in progress	12,361.6	(10,859.0)	-	0	1,502.6	2,891.3	0.0		4,393.9
Total	$353,061.6	$27,067.2	$2,442.8	0	$377,686.0	$26,891.5	$1,793.3	-	$402,784.2
13 Month Average included in Rate Base	$338,414.8				$355,985.3				$387,253.5

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6.7 Accumulated Depreciation

The December 31, 1995 accumulated depreciation balance was $103,263,200. Depreciation in 1996 increased by $12,655,200, with retirements of $2,442,800 and other adjustments of $81,900. The December 31, 1996 resulting accumulated depreciation balance was $113,557,500. The changes for 1997 consist of depreciation expense of $13,820,400, retirements of $1,793,300 and adjustments of $40,700. The 1997 depreciation expense includes an amount of $19,700 for the new OMR/ERT modules which were installed in 1996. Centra requested approval of a depreciation rate of 6.6% for the OMR/ERT modules. All other depreciation rates were previously approved by the Board.

6.8 Contributions in Aid of Construction

Contributions in aid of construction are required where the cost of constructing facilities does not otherwise meet economic feasibility tests. In existing franchise areas, Centra's policy is to require an upfront customer contribution for individual service lines in excess of 150 feet and for main extensions to service to new areas if the revenue/cost ratio by year five of the project is not projected to be at least 1.0. Centra uses a net present value revenue requirement calculation to determine the feasibility of main extensions. This is applicable to all customers regardless of their revenue class.

Customer contributions are collected in advance and a true-up is required after five years. If monies are owing to the customers due to an over contribution then the over contribution is refunded. If the revenue/cost ratio is not achieved, then Centra does not require additional contributions unless such an arrangement had been previously negotiated.

Customer contributions in aid of construction increased since 1995, due in part to the rural gas expansion program for which Centra estimated it will receive approximately $20.7 million from three levels of government, and approximately $865,000 from customers.

6.9 Working Capital Allowance

Working capital allowances relates to the net investment that Centra requires to carry on its day to day business activities, and includes such items as inventories, finance contracts receivable and an allowance for cash requirements. To the extent that Centra has an investment in working capital requirements, it is entitled to earn its allowed rate of return on that investment. The working capital allowance for 1995, 1996 and 1997 consists of the following:

Working Capital Allowance - Thirteen Month Average (in 000's)					
	1995 Approved	1995 Actual	1996 Bridge Year	1997 Test Year	Increase 1997 from 1995 Approved
Materials Inventory	$1,268.8	$1,203.0	$1,286.6	$1,164.0	$(104.8)
Propane Inventory	1,923.1	1,856.2	226.2	0.0	(1,856.2)
Gas Storage Inventory	24,749.0	20,685.5	20,451.0	19,526.3	(1,159.2)
Total Inventory	27,940.9	23,771.7	21,963.8	20,690.3	(3,081.4)
Security Deposits	(806.9)	(734.2)	(842.0)	(823.3)	(89.1)
Finance Contracts	4,465.6	6,446.2	8,072.3	6,888.7	442.5
Cash Requirements	6,753.2	6,905.3	7,268.6	6,742.9	(10.3)
Total Working Capital Allowance	$38,352.8	$36,389.0	$36,462.6	$33,498.6	$(2,890.4)

The reduction in the inventory of $3.1 million from 1995 approved to 1997 is mainly attributable to the elimination of propane in storage and the lower cost for gas in underground storage.

The working capital allowance for cash requirement is calculated by determining the revenue and expense lead or lag for a number of components. The calculation of the cash requirement for the working capital allowance is set out in the following table:

Working Capital Allowance- Cash Requirement 1997 Future Test Year (in 000s)				
	Test Year Amount [1]	Daily Amounts (Col 1/365) [2]	Lead Lag Days [3]	Working Capital Required (Col 2*3) [4]
Revenues	269,742.0	739.0	39.5	29,161.7
Purchased Gas Expense	150,370.9	412.0	(36.1)	(14,864.1)
Operating Expenses:				
Salaries, Wages & Benefits	36,702.5	100.6	(9.1)	(915.0)
Other Operating Expenses	11,434.5	31.3	(23.6)	(740.6)
Property Taxes	12,904.4	35.4	(23.8)	(841.4)
Income Taxes	13,006.0	35.6	(15.2)	(541.6)
Financing Expenses:				
Interest on Long-Term Debt	14,669.9	40.2	(91.3)	(3,669.5)
Interest on Short-Term Debt	469.7	1.3	(19.2)	(24.7)
Cost of Service Items	239,557.7	656.3	13.5	7,564.8
Non-Cost of Service Tax Collections	34,479.5	94.5	(8.7)	(821.8)
Net Working Capital Requirement				6,742.9

In Board Order 49/95 Centra was directed to provide evidence on the matter of non-cash items included in the calculation of the working capital requirements in the next GRA so that the arguments could be fully canvassed and Centra's methodology compared to other jurisdictions. In this application Centra produced an updated lead-lag study prepared by Arthur Andersen. The original lead-lag methodology and study was reviewed by the Board in 1991 and determined to be reasonable. The methodology has been updated for GRA filings since then.

The Arthur Andersen study reviewed the methodology followed by Centra in performing the lead-lag study filed in the application, the treatment of non-cash expenses in arriving at the net working capital requirement, and a comparison of the methodology to other jurisdictions. The report concluded that the methodology used by Centra continues to be a reasonable and appropriate approach for measuring the revenue lag and the expense lead. Arthur Andersen further concluded that the proper application of the this methodology should result in a reasonable approximation of the working capital allowance for Centra and that the methodology was a fair approach in arriving at the net working capital requirement.

6.10 Construction Work in Progress (CWIP)

Centra is forecasting to have six projects in progress in 1997 that are forecast to be placed in service in subsequent periods. These projects are not part of the current Rate Base. None of these projects included in CWIP at this point have the appropriate cost-benefit analysis as Centra is not applying for approval of inclusion in Rate Base in 1997. All CWIP projects are scheduled for 1998 or later. Upon application for approval in Rate Base, Centra intends to prepare the necessary studies so as to justify the used, useful, and prudently acquired test. Upon completion, Centra will seek to transfer these into Rate Base. The following table summarizes these projects:

DFIS	$2,938.0
SCADA	1,455.0
DFIS #4	82.7
Year 2000	241.9
Rural CAD Analysis	53.8
USS Replacement Analysis	75.5
Other	322.5
Total	$5,169.4

6.11 Intervenors' Positions

Counsel for CAC/MSOS compared previous capital expenditures of $21.2 million in 1994, $24.0 million in 1995, and $24.5 million in 1996, net of the rural expansion contribution. CAC/MSOS believes the level of spending is unacceptably high, in light of previous Board Orders 8/96 and 49/95 which had expressed concerns with the capital expenditures and had directed Centra to be cognizant of increased plant additions, and despite limited customer growth and current economic considerations. It was also noted that with the redefinitions of the priority classifications, an increased number of capital expenditure projects were incorporated into the necessary category from the justifiable category.

CAC/MSOS criticized the CAD program arguing that the Board should rely upon the NPV customer revenue impact method since that would be the effect upon the ratepayer. Over the lifetime of the project, examining the hard and soft benefits, tangibles and intangibles, quantitative and qualitative measures, the CAD project still had a negative impact and therefore should not be approved as an addition to rate base.

Similarly, the OMR program was criticized for a having negative NPV. The justification of the project was also questioned as to its efficiency as a short term solution with no long term plans since new technology and an expanded OMR project might not incorporate the current ERTs. Furthermore, since Centra is currently discussing the possibility of a joint meter reading program with Manitoba Hydro, the OMR project should not be included in Rate Base.

The expenditures for cathodic protection were questioned as there are no industry standards requiring such a frequent measuring and therefore there was no pressing safety concern.

The lead lag study was criticized for the inclusion of non-cash expenses in the calculation of working capital requirements. In the opinion of CAC/MSOS, Centra has not adequately justified the calculation of the working capital allowance.

The proposed treatment of the propane peak shaving facility raised concerns. CAC/MSOS took the position that the annual amortization amount that should be recovered from ratepayers should reflect only the value of the plant net of any recovery in selling the plant at market value. The value of the plant would be the current book value. Therefore, no amortization of the propane facilities should be permitted for rate-setting purposes until the market value of the plant has been established either through the sale of the facility or through evaluation of the plant as a conventional propane production facility. It was further recommended that it be amortized over twelve years but that the carrying costs be calculated on the short-term cost of debt so that Centra's shareholder not earn a long-term rate of return on assets no longer in use.

CEPU encouraged the Board to view the OMR project only as a means of obtaining meter reads at customers' properties where meter access is generally hard to obtain. Technological advantages such as OMR should be used to continue to provide customers with the service they value.

Municipal opposed the CAD and OMR projects on the basis that they were not cost effective and that Centra was engaging with other utilities in discussions on joint meter reading projects.

6.12 Board Findings

6.12.1 General

The Board continues to be concerned with the increased level of capital expenditures over the past several years and the forecast expenditures for 1997. The Board notes that the level of Essential category expenditures is relatively constant and represents only a total of some $374,000 for 1996 and 1997. The Justifiable category continues to represent the major part of the capital program. In Order 8/94, the Board stated in part that it had concerns about the increasing plant additions to be included in Rate Base, especially in view of limited customer growth and the current economic climate. The Board further noted that it was not convinced that delaying or eliminating many of the justifiable expenditures would result in decreased productivity or deterioration of facilities.

In Order 49/95, the Board continued to express its concerns with the level of discretionary expenditures, many of which were in the Justifiable category, stating that the Board continues to believe that discretionary spending should be curtailed to the fullest extent possible, particularly in this current economic climate. The Board is aware that Centra's infrastructure is aging and there is a continuing need for rehabilitation and ongoing maintenance. The Board is therefore concerned with the high proportion of capital expenditures in the Justifiable category when there appears to be a pressing need for more expenditures in the Essential and Necessary categories, particularly for system betterment. The Board expected Centra to pursue a capital budget of austerity and take all possible steps to limit its capital program to those items which are required to accommodate customer growth, maintain system integrity and safety and to continue to deliver the existing level of customer service. The Board has not been convinced that those expectations have been met.

The Board continues to have concern with the level of expenditures for capital projects in both the Necessary and Justifiable categories. The Board is not satisfied that all "Necessary" projects are properly categorized, nor that all "Justifiable" projects have been adequately supported by cost/benefit analyses or sufficient detail of the non-tangible benefits. Centra stated that it did not list the individual capital projects in order of priority.

The Board continues to believe that Centra must limit its expenditures to those absolutely necessary to accommodate growth and to maintain system safety and existing levels of customer service. In future applications, the Board will require Centra to list all of its proposed capital programs, including those expenditures under $100,000, in order or priority. Justification for proceeding with projects in any of the three categories must include detailed explanations of how the criteria contained within the definition of each category are satisfied by a specific project, and must also clearly demonstrate efficiency gains, and the operational and economic impacts of not proceeding with a specific project.

The Board considers the current definition of the priority categories of Essential, Necessary and Justifiable to be adequate, but will **require that in future GRA applications, each capital project in any of the three categories of essential, necessary and justifiable be accompanied by specific details which will indicate how the defining criteria has been met by the project. The Board further will require Centra to priorize each capital project applied for in rate base in future GRA filings.**

6.12.2 Comparison of 1995 Rate Base to Actual

This is the second GRA filed by Centra following the regulatory adoption of a future test year. The first future test year application was filed based on a 1995 test year. As noted earlier, no application was filed in 1996 and this application is based on a 1997 test year. The application also includes a comparison of the 1995 Rate Base as approved by the Board on a forecast basis to 1995 actual rate base.

The Board notes that Centra's actual 1995 Rate Base was lower than that approved by the Board. The Board reviewed this difference in some depth and, with the exception of the Annabella site acquisition costs, is satisfied that, generally the reduction in Rate Base was caused by reasonable circumstances coupled with various positive and negative impacts. Centra has not earned excess revenue for 1995 on a weather normalized basis.

6.12.3 1995 Gas Plant in Service

The Board is satisfied that the alternative of using natural gas for peak shaving purposes is justified, both from an economic and practical point of view. Centra's initiatives and investigations in this regard are to be commended, Centra has demonstrated the potential for significant annual savings to the ratepayer. **The Board will therefore allow the propane facility to be removed from Rate Base**, and residual net book value of the propane facility be considered as part of the amortization expense. The treatment of this amortization expense is discussed in Section 11 of this Order.

The Board notes that the Annabella Street project apparently involved a land acquisition in 1995. Centra had not included a request for approval of any funds for this purpose in its 1995 GRA and as a consequence, the Board had no opportunity to review this matter. This expenditure was made by Centra in 1995 after Order 49/95 was issued. The Board also notes that other projects not identified in the 1995 GRA were subsequently proceeded with, while others which had been approved by the Board were either abandoned or deferred to future years. The Board recognizes that the plant expenditures are estimated in a future test year regime. The Board however expects that all major projects intended to be proceeded with, will be identified in an application. Failure to do so will not allow the Board to put these expenditures to the tests of used, useful and prudently acquired, except on an after the fact basis. The Board does not consider that after the fact adjustments should be necessary, in most cases, in a future test year regulatory scheme. However because the Board is not convinced that the Annabella site related expenditures are prudent, **the Board will require the 1995 property acquisition and related costs of $317,900 to be removed from Rate Base.**

6.12.4 1996 Gas Plant in Service

In respect of the 1995 and 1996 capital expenditures related to the rural gas expansion program, the Board will await completion of the final summary report of actual expenditures and other matters related to the program , as required pursuant to Order 37/95. However, at this time, the Board will **disallow the inclusion of the $273,000 additional project cost resulting from the bankruptcy of Centra's contractor, GM Gest.** The Board considers that Centra did not have an adequate inspection system to monitor the progress of the construction. With proper monitoring in place, Centra could have more accurately assessed the proper contract status so as not to incur subsequent costs to complete the work at an extra cost ultimately to be borne by the ratepayer. The Board considers that failing to adequately monitor the work and progress payment reports, withhold insufficient funds, and not call upon the performance bond supplied by the contractor, constituted business judgment the results of which decisions should not be borne by the ratepayers.

The OMR project is scheduled to address 8,400 residences with access problems out of 72,000 indoor meter locations. Although the Board agrees with Centra that this is a problem that has to be addressed, the Board considers that the proposed OMR project applied for inclusion in rate base by Centra is not the appropriate long term solution to the problem. The Board arrives at its decision by taking into account the following factors:

- The project addresses a partial solution only since only 8400 of the 72,000 total indoor meters are targeted;
- Technology is changing rapidly in this area and the same technology may not be practical for future expansions for all 72,000 indoor meters;
- Centra is currently investigating joint meter reading ventures with other utilities;
- The trend in the energy industry is towards more time of use rates which would require different meters; and
- The NPV results are negative.

In the Board's view, the OMR project is an expensive stop gap measure that does not fully address the problem of indoor meter access as a whole. Therefore the prudency of this expenditure is questionable. . **The Board is not convinced that the OMR project expenditures are prudent, and therefore denies the inclusion into Rate Base of the $298,200 in 1996 and $500,000 in 1997.**

The CAD project does exhibit a comprehensive approach to the problem of scheduling meter reading and directing field service personnel in a more efficient manner. Responsive customer service is required and can be delivered by the CAD project. The extensive benefits identified by Centra justify proceeding with the CAD project. Nevertheless, the Board is concerned with the high expenditures namely $2.7 million for this project. Under the regulatory impact calculation the cost to the customer is negative $76,000. **The Board will approve the inclusion in 1996 rate base of the CAD project subject to a reduction of $76,000.**

As previously mentioned, the Board has concerns about the level of discretionary expenditures incurred by Centra in 1996. However, the Board is reluctant to make significant retroactive adjustments in this instance, given the future test year regime, and recognizing that many circumstances led Centra to not file a 1996 GRA, not the least of which was that the forecasted revenue deficiency was less than what a GRA hearing would have cost the ratepayer. **The Board will therefore allow the inclusion of the other 1996 plant expenditures as submitted in this GRA.**

With respect to the construction of the elevator at Sutherland Avenue, the Board is sensitive to the needs of its employees and customers. The Board is concerned however, that the expenditure was discretionary and that perhaps an alternative solution might have been determined once the extent of the environment related remediation requirements were known. The Board is quite surprised that the extent of the containment costs and the potential requirements were not known prior to the start of the project, given that recent contamination investigations had been carried out at the site. The Board expects Centra to fully consider environmental remedial costs for all future works at this site.

6.12.5 1997 Gas Plant in Service

The Board notes that approximately $7.319 million of the $24.0 million estimated plant expenditures for 1997 is attributable to customer growth, primarily within existing franchise areas. The Board recognizes that these are estimated costs to attach some 3,190 customers in 1997. The Board also notes that the 1996 costs to attach approximately 4,918 customers was $6.495 million. The mix of customers between rural expansion areas and existing franchise areas is different for each of the years, as is the forecast amount of contributions in aid of construction. The Board is satisfied that, on balance, the net requested expenditure for customer growth is reasonable and will allow this expenditure for rate setting purposes. The Board will expect Centra to prepare and file its feasibility analysis for each main extension in excess of 500 meters prior to proceeding with each project, as previously ordered by the Board.

Centra has not justified to the Board's satisfaction, any of the proposed expenditures for the Annabella Street site. No changed circumstances have been identified which indicate that a pipe storage building is now required, nor that the relocation of construction and welding staff from the existing facility is critical to Centra's operations. The Board considers that the ancillary expenditures proposed for this site have not been justified and **will not allow any of the expenditures for the Annabella Street project in 1997.**

The substantial vehicle replacements are of concern to the Board. Being mindful of the current economic circumstances, **the Board will order Centra to defer a portion of its proposed vehicle replacement expenditures and will allow an amount of $750,000 for inclusion in rate base, and not the $991,000 as applied for.** The Board will expect Centra to defer the replacement of these vehicles which have the best maintenance record so that the target expenditure is achieved. The Board will revisit the vehicle replacement policy at the next GRA and investigate the appropriateness of replacement criteria, type of vehicle for type of activity and will expect Centra to approach the new policy with the philosophy of optimizing costs for a serviceable fleet.

Centra has not justified to the Board's satisfaction that the planned expenditures for Information Services System Architecture of $200,000 is prudent, nor critical and will not allow this expenditure to be included in rate base.

The Board will require Centra to defer all expenditures related to the SCADA system replacement and pressure monitoring/remote telemetry unit installations until 1998, at the earliest. The Board will require Centra to submit a detailed business case including cost estimates, financial impacts and cost/benefit analysis for the total project, prior to commencing the acquisition or installation of any components of a new system. Should circumstances in respect of vendor support change, the Board will be prepared to reconsider this matter prior to the next GRA.

The Board rendered its decision on the IPL project in Order 124/96 dated December 20, 1996. **The Board will require Centra to recalculate the impact of that decision on the forecast expenditure of $2,320.9 million included in this GRA, as well as the increased contributions in aid of construction.**

System betterment projects such as cathodic protection systems, Dresser replacement programs, regulator station upgrades and relocations and odorant monitoring and injections systems are integral to the adequate and safe functioning of the distribution system. The Board does not agree with the argument of CAC/MSOS that the increased monitoring of the cathodic protection are mere toys and have not been demonstrated to be prudent. The Board recognizes that the age of parts of Centra's system, together with industry experience of corrosion leaks on steel mains dictates an increased monitoring level. The Board considers the expenditure for cathodic protection and for the other system betterment programs to be important to the safe operation of the distribution system and will allow their inclusion in rate base.

The Board has reviewed Centra's proposed expenditures submitted as "1997 Other Plant Additions", totalling $1,376,400. The Board considers a great number of these projects to be discretionary and, while they may be convenient, they certainly are not crucial to operations. Items such as paving various parking lots, office improvements, leasehold improvements, office furniture, signage, additional computer software, and to some extent, general tools and equipment, can either be eliminated, deferred or phased in over a period of time. The Board will expect Centra to reprioritize this list of projects so that the above comments are addressed and **will direct Centra to reduce the level of these expenditures to no more than $800,000 for inclusion in 1997 rates.**

The Board wishes to make a final comment about plant expenditures. The Board is concerned that in the current environment, when many other private sector entities, Crown corporations and governments are actively and vigorously pursuing cost restraint and reduction, Centra appears to be on a different course. Existing levels of service in other sectors are being threatened, not increased. Merely maintaining costs at historic levels at or below inflation is no longer adequate. Budgets are encompassing lower levels of capital expenditures. The Board is of the firm conviction that the consuming public would not willingly agree to a greater cost for a marginal increase in the level of customer service.

7.0 Overall Rate of Return and Capital Structure

7.1 1995 Allowed Return on Equity

Board Order 49/95 approved a formula approach for the determination of future rates of return on equity (ROE) where the currently allowed rate of return is adjusted by 80% of the change in the forecast long Canada bond yield. The forecast long Canada bond yield is determined as the average of the forecast 3 month and 12 month 10 year Canada bond yields as reported in the November Consensus report, adjusted for the average spread between 10 year and 30 year Canada bond yields at the end of November. The Board approved the use of this formula subject to the forecast long Canada bond yield falling within plus or minus 2% of the 1994 forecast yield of 8%.

In Order 49/95, the Board approved an ROE range of 11.90 percent to 12.35 percent (with a mid point of 12.12 percent for rate setting purposes), and a capital structure which included 40 percent equity. The Board also reserved the right to require a full ROE hearing as a result of unusual or significant changes in the economy, the capital markets or Centra's underlying business and financial risk. The decision resulted in an overall rate of return of 10.80 percent as outlined below:

	Capital Structure	Weight Percent	Cost Rate Percent	Weighted Average Cost of Capital
Long-term debt	$135,609,800	47.39%	10.29%	4.88%
Short-term debt	36,100,800	12.62%	8.50%	1.07%
Equity	114,473,800	40.00%	12.12%	4.85%
Total	**$286,184,400**	**100.00%**		**10.80%**

7.2 1995 Actual and 1996 Forecast

During the hearing, Centra provided information that the total actual return on equity was 13.22% for 1995 and 15.02% forecast for 1996. The weather normalized return on equity for 1995 was 10.52%, compared to the allowed return on equity of 12.12% as indicated in Section 7.1. The weather normalized return on equity for 1996 is forecasted to be 10.98%, compared to the forecasted allowed return of 11.28%. Centra stated that the return on equity is calculated in accordance with the measurement practices approved by the Board whereby both debt financing and shareholder equity are calculated based on Rate Base.

7.3 1997 Application

Centra requested approval of an overall rate of return of 9.98 percent as outlined below:

	Capital Structure	Weight Percent	Cost Rate Percent	Weighted Average Cost of Capital
Long-term debt	$160,880,000	57.001%	9.309%	5.31%
Short-term debt	8,605,000	3.049%	5.451%	0.16%
Equity	112,757,300	39.950%	11.290%	4.51%
Total	**$282,242,300**	**100.001%**		**9.98%**

Centra applied for an extension of the formula to the 1997 test year as no GRA had been filed in 1996. Centra maintained that the formula had worked well in that it generated a return that was reasonable as compared to other recent Canadian ROE decisions.

Centra contended that Board Order 49/95 provided adequate support and direction to enable all parties to evaluate the requested ROE calculated by the formula approach. Further, Centra indicated that there had been no significant changes in the capital markets or the business risks of Centra since the last GRA which would invalidate the use of the formula approach approved in Order 49/95.

Centra sought one modification to the formula, requesting to use the September Consensus Forecast rather than the November forecast as presently contained in the approved formula. Centra suggested that because rate application hearings typically occurred in the November/December time frame and the November Consensus Forecast is normally not available until the second or third week of November, the efficiency of the hearing could be improved by moving the Consensus Forecast date back to September such that the final Long Canada bond forecast and ROE would be known by the time the hearings commenced. Centra does not see this request as a change in the conceptual framework of the ROE formula, but rather a procedural or administrative change. Centra argued that the reason for advancing the earlier date was simply one of process, that is, the return on equity calculation can be made earlier so as to facilitate an earlier revenue requirement determination. Centra provided information that the ROE based on the November 1996 Concensus Forecast would be 10.58%.

7.4 Capitalization

In its application, Centra expressed concern regarding the significant disparity between rate base and capital structure for 1997.Centra attributed this disparity to two factors:

1. The capital of the Company at any point in time finances not only rate base assets, but also short term assets (net of short term liabilities). These short term assets include a variety of items that are reflected on the Company's balance sheet. The two most significant of these are the cost of CWIP and deferred charges, the latter including deferred financing costs, rate case costs and the deferred PGVA.

2. The different basis on which the total capitalization and rate base are calculated in the Test Year Application. In the 1995 Test Year application, total capital was calculated based on the opening and closing balances at year end, referred to as the mid-year average balance. Rate Base in this application, was based on a 13 month average.

Centra believes that the current mechanism used to determine its return on invested capital will not work fairly unless total capital equals Rate Base. Centra argued that if total capital exceeds Rate Base, Centra's shareholder will be denied the opportunity to earn a fair rate of return on its invested capital. This occurs in the 1997 Future Test Year. On the other hand, if in future periods Rate Base exceeds total capital, Centra asserts that the shareholders would earn a return on capital that was not employed.

To eliminate the difference between rate base and total capital, Centra requested approval of the following adjustments to the capital structure:

1. Capitalization for rate base purposes was calculated using a 13 month average for both total capital and the individual components of capital, including common equity. This harmonized the treatment of rate base and capitalization with both amounts represented by average balances calculated on the same basis. The net impact is that total capitalization included in the application is approximately $7.2 million lower than if calculated using the former mid-year average balances.

2. Total capitalization was adjusted to match those assets which are financed with a combination of short and long term financing and which recover a return equivalent to the overall rate of return. This includes all components of rate base and the unamortized balance of the decommissioned peak shaving plant. All other assets, primarily consisting of CWIP and deferred charges, are financed with short term debt. The adjustment to bring these into line was made to short term debt. This second step eliminates the remaining $9.6 million ($16.8 million minus $7.2 million of difference between total capital and rate base.

3. The first two adjustments eliminated the difference between total capitalization and rate base. In order to achieve the 60/40 debt to equity ratio ordered by the Board in Order 8/94, a notional reduction in common equity and a corresponding increase in short term debt such that common equity would be equal to approximately 40% of the adjusted total capitalization was required.

With these adjustments, Centra maintains that its blended capital is matched with its long term assets, while short term assets such as CWIP and deferred charges are financed entirely with short term debt.

To support its position, Centra offered a comparison to other jurisdictions. Centra asserted that its proposal was consistent with the approach used in these other jurisdictions. Both Union Gas Limited and Consumers Gas use the same approach used by Centra for determining total capital and common equity. Total capitalization is adjusted to equal rate base by adjusting short term debt to bring both into balance. Common equity is then established by applying the approved percentage for common equity to adjusted total capital for the Test Year period. Canadian Western Natural Gas Company Limited and Centra Gas Alberta Inc. both use a mid-year average for all components of capital structure. While this results in a difference between rate base and total capital, at least some of the difference is "corrected" by the treatment of CWIP. These companies are allowed to capitalize interest on the balance of their CWIP accounts using an allowance for funds used during construction (AFUDC). The use of AFUDC recognizes that all components of capital are to be used to finance CWIP. However, there appears to be no prescribed treatment for capital used to finance deferral accounts, other than a trigger mechanism to change rates if the deferral accounts become significant. The Alberta approach could be categorized as halfway between Centra's historical and proposed approach.

Pacific Northern Gas Ltd. uses a very similar approach as the Ontario utilities, with total capital matched to rate base and common equity established as a percentage of adjusted total capital. Common equity, however, is allowed to move within narrow a band rather than being struck at a fixed point. This approach is essentially the same as the one proposed by Centra.

7.5 Intervenors' Positions

CAC/MSOS did not take a position against the continued use of the formula in this particular application. However, CAC/MSOS noted that the formula, and all its components, was never meant to be in place on a permanent basis without some kind of review. CAC/MSOS argued that a re-examination should be conducted at the next GRA to determine whether all the assumptions implicit in the formula are still valid and all the components of the formula are still appropriate. The Board was also urged to use the November Consensus forecast since it is the most recent and was part of the original formula approved by the Board.

Municipal also argued that the November Consensus forecast should be used for calculating the rate of return on equity since the formula was determined on a neutral basis and should be consistently applied. The change from the November Consensus forecast requested by Centra challenged the neutrality factor contained in the Board approved formula, making the formula subjective rather than objective, which defeats the purpose for which the formula was adopted.

In terms of capitalization, CAC/MSOS did not challenge the implicit philosophy or rationale behind Centra's proposal. CAC/MSOS agreed, generally, that capital should line up with rate base. However, CAC/MSOS noted that fairness issues should be the primary consideration in matters such as these. In its view, there is strong argument to reject the company's proposal at this point in time because it is unfair to consumers.

CAC/MSOS maintained that apart from the propane peak shaving facility, the primary factor exacerbating any imbalance in capitalization and rate base is deferral accounts relating to gas costs. The fact that the PGVA is particularly large at this time contributes to the particularly large adjustment in 1997. CAC/MSOS stated that Centra is already treated equitably relative to other gas companies in relationship to its debt/equity ratio and with respect to its cash working capital requirements. CAC/MSOS submitted that it is not now time to add to the ratepayers' burden by adopting capitalization changes proposed by Centra since the proposed changes will increase rates for ratepayers.

Municipal argued that non-rate base charges should not be used to adjust the capitalization of Centra.

7.6 Board Findings

The Board accepts the continued use of the formula approach to calculate ROE. The Board also reserves the right to call a full ROE hearing should it determine that changes in capital markets or business risks to Centra warrant a review.

The Board takes the view that without good and pressing reasons the formula should not be altered from what was originally approved so as to maintain its objectivity. Furthermore, the November Consensus Forecast is more current than the September Forecast since it is closer in time to the period over which the rate of return will be earned. In making its decision, the Board recognizes that if Centra continues to hold GRA hearings in November, the application will have to be updated to include the November Consensus

Forecast upon its release. **The Board rejects Centra's proposal to use the September Consensus Forecast and will order that the November Consensus Forecast be used to calculate the ROE.**

The Board is not convinced that the capital structure used to determine the weighting of capital components should be adjusted at this time from actual for purposes of the rate of return calculation. **The Board therefore rejects Centra's capitalization adjustments and orders Centra to recalculate its overall rate of return based on the prior approved methodology.**

The Board will approve an allowed overall rate of return of 9.58%, based on the actual capital structure and an ROE of 10.58%as outlined below:

	Capital Structure	Weight Percent	Cost Rate Percent	Weighted Average Cost of Capital
Long-term debt	$160,880.0	53.780	9.309	5.01
Short-term debt	18,684.3	6.248	5.451	0.34
Equity	119,470.3	39.952	10.58	4.23
Total	**299,034.6**	**1.000**		**9.58**

The Public Utilities Board

8.0 Gas Sales

8.1 Normalization Process

To calculate the 1997 future test year volumes for purposes of rate setting, Central used normalized 1995 volumes as a starting point. Centra witnesses stated that the normalization techniques used to estimate normal year gas sales and transportation volumes were the same as those employed for the 1995 test year, except for two minor modifications. The first of these modifications involved the identification and inclusion of those customer loads which are primarily independent of weather and removing these volumes from the normalization process. The second refinement was the introduction into the equation of a degree day lag variable factor. In Centra's opinion these changes were necessary to reflect the fact that consumptions are not precisely dependent on daily weather conditions, but rather a lag exists from one day's conditions to the next day's weather.

Centra continued the use of a 10 year rolling average effective degree days (DDs) to define the normal year. The weather for the 10 year period from 1986 to 1995 was used for this application, while weather from 1985 to 1994 was used for Centra's 1995 GRA. The relative DDs were 4,449.3 and 4,437.8, indicating a slightly warmer normal year.

8.2 Normalization of 1995 Actual Volumes

In Order 49/95, the Board approved 1995 test year normalized volumes of 1,824,584 10^3 M^3 at a heat content of 37.8 GJ/10^3 M^3. Centra has historically used heat content values of 38.0 GJ/10^3 M^3, to compare year to year usage. Using this historic heat content, Centra submitted that the normalized 1995 actual volumes were 1,811,876 10^3 M^3, compared to the 1,816,065 10^3 M^3 (converted to heat content of 38.0 GJ/10^3 M^3) approved by the Board. Centra submitted the following reconciliation between estimated and actual 1995 normalized test year volumes:

	Volumes - 10^3 M^3
1995 test year approved (at 37.8 GJ)	1,824,584 10^3 M^3
Adjustment to 38.0 GJ	(8,519)
1995 test year approved (at 38.0 GJ)	1,816,065
Change in Normal year degree days	(2,300)
1993 Flooding Impact on residential load	(7,000)
Decrease in LGS 4 class unit average load	(16,000)
Load growth in LGS 1, 2, 3	2,500
Increase in Interruptible load	5,600
Increase in T-Service load	10,300
Special customer load growth	6,400
Miscellaneous, unidentified	(3,689)
1995 Base Load (at 38.0 GJ)	1,811,876
Adjustment to 37.8 GJ	8,464
1995 Base Load (at 37.8 GJ)	1,820,340

In addition to load growth, Centra stated that subsequent to the 1993 Winnipeg flood, numerous customers refinished their basements, using higher insulation levels, which resulted in decreased consumptions. Additionally, the LGS 4 customer class consumption trend, which had exhibited increased per customer usage of about 0.7% per year through to 1993, was estimated to continue in 1995. However, the actual per customer consumption, based on 200 "must read" customers in this class (of a total of 9,000 customers) indicated an actual decrease in per customer use of some 1.0% per year, commencing in 1993. The two year impact is the -16,000 10^3 M^3 shown in the above table.

8.3 1996 and 1997 Normalized Volume Adjustments

Using the prior year normalized volumes as the base, Centra estimates the next year's normalized volumes by annualizing the prior years additions and assessing the impact of the following factors:

1. Customer additions, recognizing time of year for attachments
2. Conservation adjustments
3. Large Volume customer additions and load changes

In 1996 and 1997, customer growth occurred in two distinct segments: existing franchise areas and new franchise areas related to rural gas expansion projects, as follows:

	1996			1997		
	Existing Franchises	Rural Expansion	1996 Total	Existing Franchises	Rural Expansion	1997 Total
SGS Residential	2,700	1,524	4,224	2,700	161	2,861
SGS Commercial	190	328	518	180	36	216
LGS 4	60	116	176	50	17	67
New LGS 4	-	-	-	7	-	7
Total Customers	2,950	1,968	4,918	2,937	214	3,151

Conservation adjustments were estimated at -1.0% for the residential customers and -1.4% for the SGS Commercial Class, consistent with adjustments used in the 1995 GRA. As stated in the previous section of this Order, the estimated conservation adjustment for the LGS 4 Customer Class was changed from a +0.7% to a -1.0%. This adjustment reflects higher efficiency replacement furnaces, more energy efficient housing coming on stream and general conservation measures, somewhat offset by increased appliance penetration.

The major adjustments for high volume customer additions, deletions and other load changes in 1996 were:

- Increase in the Nestle-Simplot Plant load at Carberry, Manitoba, due to plant expansion
- Increase in Simplot Plant at Brandon, Manitoba, due to increased process load
- Elimination of Labatt's Brewery Plant load in Winnipeg, due to plant closure
- Decrease in Manitoba Sugar Winnipeg Plant load to reflect return to more typical process season than experienced in 1995.

1997 conservation adjustment factors were identical to those used in 1996. For both 1996 and 1997, new SGS residential attachments were estimated at less than the class consumption average, to reflect increased efficiencies and energy conservation since 1991. SGS Commercial and LGS 4 customer class consumptions were estimated as being at class averages, except for the rural expansion customers and new agricultural LGS 4 customers, where customer specific load data was available and used.

Significant 1997 adjustments for large volume customers were:

- Increase in McCain's plant load at Portage La Prairie, Manitoba, due to expansion
- Further increase in Simplot plant load at Brandon, Manitoba
- Decrease in Via Rail Station load, due to closure of steam plant, in late 1996
- Increase in natural gas vehicle (NGV) fuel load

The adjustments to the 1995 base year normalized volumes, for 1996 and 1997 for estimated customer attachments in the SGS and LGS customer classes and resulted in 1997 normalized volumes estimated at 1,874,523 10^3 M^3. The following is a summary of the 1996 and 1997 adjustments and 1997 normalized volumes:

	(in 10^3 M^3)		
	1996 Adjustments	**1997 Adjustments**	**Total Adjustments**
1995 Base Volume	-	-	1,811,876 10^3 M^3
1995 additions annualized	8,686	n/a	8,686
SGS/LGS 4 Additions	9,357	19,316	28,673
Conservation Adjustment	(12,760)	(12,759)	(25,519)
Large Volume loads	(1,902)	34,006	32,104
NGV load	-	4,800	4,800
Total at 38.0 GJ			1,860,620
Adjust to 37.8 GJ			8,636
Total at 37.8 GJ			1,869,256
Revised customer impacts: SGS			647
LGS			4,620
1997 Normalized Volumes			1,874,523

8.4 1996 and 1997 Normalized Revenues

The Board approved 1995 test year normalized revenue from gas sales and transportation receipts in the amount of $267,482,800. This revenue was calculated by applying annualized rates, as approved in Order 79/96, dated July 5, 1996, to the 1995 normalized volumes, as actually recorded. Similarly, 1996 normalized revenues were $264,270,300 using annualized 1996 base rates also approved in Order 79/96. 1997 normalized revenues at existing 1996 annualized base rates are forecast to be $269,089,300.

8.5 Intervenors" Positions

None of the Intervenors' opposed Centra's normalization process or the estimated 1997 normalized volume calculations.

8.6 Board Findings

Except for the two modifications related to the identification of a greater portion of volumes as being non-heat sensitive and the institution of a degree day lag factor, the normalization process utilized by Centra is the same as that previously reviewed and accepted by the Board. The Board accepts these modifications as refinements to an approved methodology that will enable Centra to more accurately calculate normalized volumes and will accept the normalization process as submitted by Centra.

The Board notes with interest the increased load for new agricultural process applications, and other larger volume customer attachments. Centra should provide the Board with information on actual volumes consumed by these various customers and updated information on consumptions and normalized volumes at the next and subsequent GRAs. The Board will also expect Centra to provide any further data and information in respect of the impact of basement retrofits subsequent to the 1995 flood. The Board will also expect Centra to monitor and report on the trends related to the effect of conservation on annual volumes, particularly within the LGS 4 class. On an overall basis, the variance between the 1995 test year estimated and actual normalized volumes is less than half of one percent, which is well within the range of acceptability. **The Board will approve the 1997 estimated normalized sales volumes of 1,874,523 10^3 M^3 for purposes of calculating rates.**

9.0 Gas Purchases

9.1 Gas Supply Portfolio

In Order 49/95, the Board instructed Centra to review the appropriateness of the supply portfolio necessary to meet maximum year requirements. Centra submitted that the 1995/96 winter season, which was the second coldest in the last thirty years, proved the validity of all Centra's forecasts of maximum year requirements more clearly than could any theoretical model. The peak day in 1996 had a degree day of 52.5, while Centra's supply portfolio planning had assumed 52.0 degree days as a peak. The throughput on this day, at 12,400 10^3 M^3, was the throughput forecast for a peak day. The throughput for the entire winter season was only 15,000 10^3 M^3 less than forecast for maximum year requirements, and the lesser amount was a function of the manner of degree day distribution throughout the winter. Storage gas was entirely withdrawn by March 31, 1996 and Interruptible customers were curtailed a total of 28 days, all as anticipated under maximum year conditions. Centra was able to supply market requirements on a daily basis without any significant problems.

Centra also submitted that the operation of the system during the past winter proved the validity of its supply portfolio. Specifically this experience showed that:

1. Firm peak day volume estimates for maximum conditions are reasonable;
2. Maximum winter season firm and interruptible requirements are as previously estimated and
3. Uncontracted supply requirements are reasonable and are able to be met by purchasing incremental supply or using capacity management loans. Centra submitted that such transactions enabled Centra to avoid significant costs associated with additional supply and also generated non-traditional revenues, amounting to some $1.4 million over the winter season.

The second phase of the supply portfolio analysis involved the evaluation of the appropriateness and optimization of the various elements of the gas supply. This optimization analysis utilized a computer model with input data of 20 year weather records, current supply prices, transportation and storage tolls as well as estimated costs for incremental requirements not met by existing supply sources. The analysis considered four scenarios:

1. Base case using existing contract levels;
2. Annual storage capacities from 0 to 450 10^3 M^3 selected by model;
3. TCPL firm service to Manitoba from 0 to 6.5 10^3 M^3 selected by model; and
4. Storage and TCPL FS both selected by model within the same range as in 2 and 3 above.

The model selected the optimum contract level for each of the scenarios, using the same volume requirements and pricing arrangements over a 20 year period. The results were as follows:

Scenario	Storage Withdrawal	Storage Capacity	TCPL FS	Average Annual Cost
1.	5.58	408	5.28	$152,129,000
2.	5.54	405	5.28	152,012,000
3.	5.58	408	5.42	151,957,000
4.	5.54	405	5.42	$151,906,000

Centra submitted that the existing portfolio (base case) was nearly at the optimum, based on current pricing assumptions, with scenario 4 being the optimum. Centra further submitted that various pricing scenarios indicated that the base case could, in fact, prove to be the optimum. Centra stated that a further sensitivity analysis of some of the assumptions would be conducted to confirm the validity of the completed study and the results would be forwarded to the Board and all registered Intervenors by March 31, 1997.

9.2 1997 Gas Supply Portfolio Operation

Centra's 1997 gas supply portfolio is the same as it was for 1995. The propane peak shaving plant, while still in rate base in 1995, was not utilized. Equivalent peaking requirements were arranged by the purchase of incremental supply from Michigan in 1996 as is contemplated for 1997. In all other respects, the gas supply portfolio is identical to that previously in place, if one considers that Western Canadian supply, in total, consists of one supply component regardless of whether this supply is provided by Centra or by a third party. The necessary supply delivery is governed on a daily basis by gas dispatch rules, which remain substantially unchanged from those used in 1996.

9.3 TransCanada Gas Services ("TCGS") Supply Contract
TransCanada Pipeline Ltd. ("TCPL") Transportation Agreement

The long term supply contract between Centra and TCGS and transportation agreement with TCPL have not changed from that in effect for the prior year, including supply volumes, demand levels, displacement entitlements, indexed price mechanism, method of basis differential calculation and term factor. In accordance with the supply contract terms and conditions, Centra revised its daily contract quantity (DCQ) to 2,575 10^3 M^3, effective November 1, 1996. This DCQ reflects an expected increase in firm volumes received from direct purchases to 1,738 10^3 M^3 per day, also effective November 1, 1996.

9.4 U.S. Transportation and Storage

In addition to Western Canadian supply under the TCGS contract and from agent, broker or marketer supply, Centra has transportation arrangements in place with Great Lakes Gas Transmission Company (GLGT) and ANR Pipeline Company (ANR) to deliver storage gas to the Michigan storage facility and/or to deliver U.S. based gas to the Manitoba market on a "back haul" arrangement. These arrangement are also unchanged from 1995. The GLGT transportation is used during the summer injection period to deliver Western Canadian gas into Michigan storage. The ANR arrangements allow for the transportation of both Western Canadian and U.S gas into storage during the summer season, as necessary, and to deliver Oklahoma gas to the Manitoba market during the winter season, by notional backhaul, and to storage during the summer season.

9.5 Other 1997 Supplies

Centra has contracted for winter period spot supplies with specific suppliers for the period from November 1, 1996 to March 31, 1997, with different DCQs for March than for the other four months. Additionally, Centra proposes to purchase further spot supply on an as required basis for the entire contract year from western Canada and/or Oklahoma. These are uncontracted supplies. Lastly, Centra is proposed to meet its peak day requirement, up to maximum year peak loads, by purchasing supplies either downstream of Manitoba, or by a transaction allowing for direct delivery to the Manitoba market. Centra further proposed to continue the use of repayment of capacity management loans to reduce the uncontracted spot supply requirements, to the greatest extent possible.

9.6 1997 Gas Costs

The cost of gas embedded in the July 1, 1996 rates was that as approved by the Board in Order 49/95, except for Western Canadian supply costs, which were reflected in rates approved by the Board in Order 79/96. The Western Canadian supply cost reflected in the July 1, 1996 rates was $1.69/GJ for the six months ending December 31, 1996. The resulting annual normalized cost of gas was estimated at $155,071,000, allowing for a leap year day in 1996.

In the application and during the hearing, Centra indicated that with high levels of storage in the U.S., increased drilling activity in the Gulf of Mexico, increased supply, and a new pipelines to remove capacity constraints, the price of gas should be more stable in 1997 than in 1996, barring unusual and unforeseen circumstances. Centra further noted that price movements are largely driven by early winter weather in the U.S. with the potential for prices to increase if the weather is colder than usual.

The forecast 1997 cost of gas is $150,370,900, which reflected a Western Canadian supply price of $1.55/GJ. This supply price inherently contains the impacts of 1996 hedging activities on 1997 volumes. Centra submitted that this price was based on its analysis of the past and future market behaviour. The basis differential, determined in the same manner as in the prior year, was established at $1.00013 U.S./MMbtu and the term factor remained as a 2.65% premium on all TCGS supply. The foreign exchange rate was set at 1.3449.

Other significant changes from prior year gas costs were an approximate $1.5 million decrease in GLGT Tolls because of a change in U.S. tolling structure, and an approximate $800,000 increase in ANR tolls due to higher U.S. exchange rates. Costs of storage gas and other supplies were based on known and/or forecast prices and were determined in a manner generally consistent with that used in 1996. Centra submitted that the 1996 results and TCPL's forecast heat values for 1997 indicated that the continuation of a heat value content of 37.8 $GJ/10^3M^3$ was warranted.

9.7 Intervenors' Positions

CAC/MSOS, the only intervenor to comment on gas supply portfolio matters and forecast 1997 gas costs, suggested that increased flexibility in Centra's gas supply, storage and transportation arrangements might be required in the future, as more of Centra's currently regulated activities enter the competitive environment. As a consequence, CAC/MSOS recommended that Centra should now be seeking to remove any constraints to the transfer, displacement or decontracting rights and to maximize profits from sale of excess requirements, including Oklahoma and Louisiana sourced gas. CAC/MSOS further recommended that the Board direct Centra to undertake changes in the management of its gas supply portfolio which would facilitate the Board's impending decision in respect of Centra's merchant function role.

CAC/MSOS suggested that Centra could and should "lock in" all, or certainly a portion of the TCGS Supply at $1.42/GJ when Centra is forecasting the 1997 Western Canadian gas price to average $1.55/GJ. CAC/MSOS also expressed concern about the working capital allowance for inventory and requested that the Board address this matter. CAC/MSOS suggested that perhaps instead of reflecting normal conditions in the PGVA, actual storage volumes and costs be used, so that consumers "would not have to pay a return, except in accordance with actual volumes of gas and storage."

9.8 Board Findings

The Board notes with satisfaction and compliments Centra on its ability to meet the maximum day and year requirements of system customers with relative ease in 1995-1996 winter. The Board considers Centra's analysis of the appropriateness of current assumptions in respect of maximum year conditions and market load requirements to be extensive and substantially complete. The Board notes that Centra has undertaken to file the results of further analysis to verify the validity of some assumptions used in the computer model and will review the report which is to be submitted by March 31, 1997. The Board accepts Centra's conclusions as currently filed in respect of the validity of its criteria and load requirements necessary to meet peak conditions in a maximum year. The Board considers that upon review of the March 31, 1997 report, Centra will have complied with the Board directive contained in Order 49/95.

The Board is satisfied that Centra's proposed 1997 supply portfolio is reasonable and all gas costs as submitted are also reasonable for purposes of setting sales rates. The Board also acknowledges the difficulty of setting the rate to be charged for gas given the volatility of the gas market that occurred throughout the application procedure and hearing. The Board recognizes that any difference between estimated and actual gas costs will be tracked and accumulated in the 1997 PGVA. The disposition of the balance in the PGVA will be dealt with by the Board at a later date, when all 1997 gas costs are known.

The Board acknowledges CAC/MSOS recommendations in respect of the cost of storage gas inventory, but considers the present regulatory treatment of such costs, combined with the PGVA mechanism, to be appropriate and fair to all stakeholders.

The Board will accept Centra's 1997 gas cost forecasts of $150,370,900, which reflects Centra's estimate of Western Canadian supply price of $1.55/GJ at the Alberta border. However, the Board is aware of recent developments in the Canadian natural gas market that could affect the estimated Western Canadian supply price. If Centra is of the view that the $1.55 GJ price is no longer appropriate, the Board invites Centra to include that information in its filing of updated information responsive to this Order.

The matter of 1996 price management activities will be considered by the Board at a later date, perhaps in conjunction with the review and disposition, on a final basis, of the 1996 PGVA, non-traditional revenue and other deferral accounts. The Board expects that such activities will, in addition to providing price stability, reduce the cost of gas to the Manitoba consumer.

10.0 Operating and Maintenance Expenses

10.1 Overall 1996 and 1997 Costs

Centra indicated in their opening remarks that this application reflects Centra's commitment to cost control, recognizing the need to provide a safe and reliable distribution system. Centra contended that this was true in absolute terms as evidenced by the relatively flat Operations and Maintenance (O & M) expenses per customer, and in comparative terms, as demonstrated by the benchmarking evidence.

Centra acknowledged the importance of controlling operating costs and ensuring that value is received for expenditures made. This value assessment is a critical component of Centra's cost management philosophy and cost decisions are continuously evaluated against a measure of customer value. Centra noted that recent Board decisions have urged Centra to continue its cost control efforts and Centra believes that this application reflects its commitment to cost control while ensuring that a safe, reliable distribution system is provided to ratepayers.

Centra's forecast 1997 O & M expenses have increased by $2,213,200 or 4.7% over the 1995 approved O & M expenses. Centra indicated that despite the limited increase in O & M expenses over the last two years, Centra has continued to expand its customer base, continued existing initiatives, and commenced new activities, including Activity Based Costing, Benchmarking, Environmental Management, Marketing, and several training programs. The major increases in O & M expenses over 1995 approved levels were in the areas of payroll costs and employee benefits ($2,274,500), rent ($154,700), postage and courier ($197,400) and shared services ($288,000). Major expense reductions were bad debt expense ($200,000) and expenses capitalized ($704,700). The following schedule provides a summary of operating expenses by major component for 1995 approved, 1996 bridge year, and 1997 forecast:

Operating Expenses by Major Component (in 000's)				
Expense Category	1995 Approved	1996 Bridge Year	1997 Test Year	1997 Increase from 1995 Approved
Payroll Costs	$28,736.5	$29,454.1	$30,208.0	$1,471.5
Employee Benefits	5,691.4	6,104.4	6,494.5	803.0
Rent	1,351.1	1,558.3	1,505.8	154.7
Contract Labour	1,372.2	1,223.7	1,405.8	33.6
Materials	1,358.1	1,317.4	1,367.1	0.9
Insurance	1,172.4	1,189.1	1,088.2	84.2
Postage & Courier	1,145.0	1,163.1	1,342.4	197.4
Bad Debt Expense	1,100.0	1,100.0	900.0	(200.0)
Telephone & Telecopying	910.0	968.2	1,052.6	142.6
Shared Services	486.0	829.1	774.0	288.0
Transportation Depreciation	669.6	665.3	656.8	12.8
Professional Development	606.2	591.4	618.0	11.8
Travel	598.6	666.3	698.2	99.6
PUB Fees	599.3	599.3	600.0	0.7
Utilities	589.9	507.3	497.8	92.1
Professional Fees	560.8	576.1	472.2	(88.6)
Office Supplies	475.1	527.6	548.8	73.7
Dues and Subscriptions	500.0	519.3	489.0	(11.0)
Service Bureau	379.1	509.3	453.5	74.4
Expenses Capitalized & Recovered	(4,680.7)	(5,327.5)	(5,385.4)	(704.7)
Other	3,203.3	3,485.4	3,249.7	46.5
Total Operating Expenses	$46,823.8	$48,227.2	$49,037.0	$2,213.2

10.2 Payroll and Employee Benefits

The two largest expense increases from 1995 to 1997 are payroll costs and employee benefits. The number of employees increased from 638 in 1995, to 646 in 1996, and 658 in 1997. Centra intends to add twenty positions in 1996 to 1997, including seven in the Engineering and Distribution Operations, six in Marketing and Sales, and eight in Finance and Administration. 47 new positions were added in 1996 and 1977, but elimination of 27 existing position has resulted in a net increase of 20. Centra employees also received two percent pay increases in both 1995 and 1996. This increase in pay plus the additional positions precipitated an increase in payroll costs of $1,471.5 million or 5.1% from 1995 to 1997.

The increase in marketing positions is due to a change in the Marketing Department from emphasizing order taking and processing orders of customers to a new focus aimed at evaluating new opportunities to increase utilization of the existing distribution system and to bring more gas to Manitobans including adding potential new customers who are near the system. Additional positions were added to evaluate main extensions and in-fill opportunities and to pursue new natural gas end-use technologies.

A further focus of the Marketing Department is that of new end-use technologies such as foundry sand reclamations and processing of hog manure and fertilizer. While not specifically involved in the research of new technologies, Centra funds and facilitates the transfer of that technology into the marketplace. Additionally, there is the ongoing conversion of electric buildings to gas. Finally, in an era of increasing competition, the Marketing Department performs the marketing of the product and the services of the LDC.

Centra testified that the objective of marketing is to emphasize the optimization of the system, both in terms of increasing the load factor so as to decrease gas purchase contract prices and unit tolls paid for pipeline transportation and storage, thus decreasing the overall costs of the distribution system. Centra indicated that the Marketing Department has already been successful in this area as evidenced by a 4-6 Bcf increase in load growth. Because of conservation efforts, the load would actually be decreasing, rather than increasing if not for the efforts of the Marketing Department. Had the existing markets stayed the same, then with the incremental load that has been added, there would be a substantial increased margin. As a distribution and transportation LDC, it is in Centra's interest, and that of the ratepayers, to maximize the flow of gas through the system.

The additional engineering positions were required to accommodate system integrity, safety issues, and increased Engineering activities. The Finance and Administration Department increased by eight positions to allow for several new initiatives, including benchmarking, activity-based costing, business process improvement, corporate governance, cash management, and facilities management.

Employee benefits also experienced an increase from $5.691 million in 1995 to $6.495 million in 1997. This was attributable to increases in long term disability and life insurance, pension plan costs, extending the employee savings plan to unionized employees, increases in employer contributions to Canada Pension Plan, Workers Compensation, and payroll taxes.

In the 1995 test year GRA, Centra had applied for a compensation scheme whereby executives, in addition to receiving their base salary, may qualify for annual and long-term incentives based on profitability and other factors. In this application Centra once again sought approval for an executive incentive program called pay-at-risk whereby the executives' compensation is increased if Centra achieves its targets, in particular financial earnings as budgeted. Centra indicated that $225,000 has been included in 1997 revenue requirement related to the short-term incentive compensation program, which amount includes $33,000 related to achieving profitability targets. Centra argued in support of this compensation component, and stated that the programs are constantly changing in terms of the elements, and a lower portion of the risk is related to profitability. The 1995 revenue requirement included $160,000 for this program after eliminating $40,000 related to achieving profitability targets.

10.3 Operating Costs per Customer

Centra indicated that it has continued its focus and attention on using operating cost per customer as a key performance measure. The following table demonstrates that over the last three years, the operating costs per customer have risen 1.2%, or $2.43.

	1995 Approved	1996 Bridge	1997 Test Year
Operating and Maintenance Expense	$46,823.8	$48,227.2	$49,037.0
Customers (Year End)	231,526	236,444	239,594
Cost per Customer	$202.24	$203.97	$204.67
Increase from 1995	-	$1.73	$2.43

10.4 Benchmarking Study

Centra was directed in Order 8/94 to provide performance measures to assist the Board in monitoring Centra's performance. Centra created a framework for benchmarking and measuring progress in implementing key strategies and achieving financial operating targets. Conceptually, benchmarking establishes measurements of current performance to ascertain how current levels compare to the standards set by the industry. The benchmarking study created performance measures relating to financial performance, operational performance, customer value, and internal environment. The results of the study indicate that Centra is a superior performer as it relates to performance against expected levels and that the O & M costs and capital expenses are below industry-wide levels.

Centra initially attempted to conduct a benchmarking study in conjunction with other Canadian LDCs, but the initiative failed as the other Canadian LDCs declined to participate. The alternative was to research and obtain the comparative data from other sources. Putnam Hayes & Bartlett was retained to complete a corporate performance study of the overall operating and maintenance costs by comparing Centra to 52 natural gas LDCs in North America. A further study was prepared by Centra using the results from another natural gas LDC benchmarking study comparing financial and operational performance, customer value, and the internal corporate environment. The identities of comparative LDCs in the study were not disclosed.

Centra submitted that the overall result of the benchmarking study was favourable, showing Centra as a superior performer in many of the categories and pointing out other areas in which Centra required improvement.

The Putnam Hayes & Bartlett study cautioned that the results are best interpreted as representing a signal that additional performance improvement is likely to be possible. Centra noted that the benchmarking study was to be used as a relative indicator only, showing that Centra was pursuing things in the right way. The second benchmarking study filed by Centra creates an operational balance score card which includes financial, operational, customer value, and internal costs and internal environment metrics.

Witnesses for Centra stated that they wished to integrate the results into the long- and short-term planning process of the Company. Through this process Centra will be able to address the results and measure the change in the results over time. It was further acknowledged that the performance matrix developed by Centra could be updated for future GRAs or other reporting requirements.

10.5 Shared Services

Shared Services charged to Centra by its parent, Westcoast Energy Inc., have increased from $258,600 in 1994, to $486,000 in 1995, $829,100 in 1996, and $774,000 in 1997. Shared Services encompass a wide range of activities including information services and technology, communications, treasury, investor relations, corporate governance, corporate comptroller fees, annual report, and sustainable development initiatives. Centra also receives from its affiliates amounts for services provided to them such as information services, customer accounting, bill inserting, and human resources. These amounts received were $842,000 in 1994, $977,600 in 1995, $1,280,200 in 1996, and are estimated to be $1,127,300 in 1997.

Arthur Andersen was engaged by Westcoast to review and conclude on the reasonableness of the Corporate Centre cost allocation methodology adopted by Westcoast. Arthur Andersen found that the allocation methodology, as refined, appropriately allocates the cost of the activities to the business units through the use of cost drivers.

Ernst & Young was engaged to define the value received by Centra relative to the financial charges from the Corporate Centre. Ernst & Young concluded that "there is clear demonstration of value to the Centra Gas Manitoba Inc. subsidiary through the provision of services by the Corporate Centre".

Centra indicated that they fully support the use of shared services and agreed with the conclusion of the two reports that the level of shared services was reasonable and Centra received benefits that far outweighed the costs. It was further indicated that Centra did not have to use all of the shared services. However, in reality as so many of the services were integrated, it was a package that Centra benefited from.

10.6 Bad Debt Expense and Bad Debt Deferral Account

Due to significant credit and collection activities, bad debt expenses have decreased slightly. Centra expects that in the future, bad debt expense will decrease further. Revenue requirement includes $900,000 for bad debt expense which is $200,000 less than the amount allowed in Order 49/95. The deferral account is expected to increase to $98,500 as a result of carrying charges on accumulated balances.

10.7 Intervenors' Positions

CAC/MSOS criticized the benchmarking study's findings that Centra was a superior performer in most fields, on the basis that the results of the study can only be used as directional indicators and are imprecise. Since the identity of the other LDCs was not disclosed, no accurate comparison could be drawn. Furthermore, CAC/MSOS quoted a witness for Centra who indicated that one of the results of the benchmarking study was that "it doesn't make us great; it may make us one of the best of a sorry lot." CAC/MSOS concluded that the study does not provide the Board with any indication as to how Centra is performing, and the Board is still required based on the record, to measure Centra's performance against its own prior results. The Board was urged to disallow the associated expenses of the benchmarking study since no additional regulatory burdens were to be incurred therefrom.

The increases in O & M costs were criticized by CAC/MSOS as being just a further step in the long line of annual increases in O & M costs. CAC/MSOS argued that on a cost per customer basis the lack of demonstrable improvement is remarkable, considering the extensive projects Centra has put in place to achieve productivity increases. Given the current economic climate of cost cutting and reduction of personnel, CAC/MSOS argued that the increases in costs and in personnel are unacceptable.

As the rationale for much of the increase in O & M and staffing was justified on the basis of improving customer service, CAC/MSOS noted that customer surveys indicate a high degree of satisfaction with the level of service, and then opined that a typical customer would be unwilling to pay more for increased customer service. Centra has in the past justified increased costs on the basis of improved efficiencies and productivity gains. CAC/MSOS suggested that these gains should have been realised and that Centra should realign its goals and objectives to provide the same or better level of service while not increasing staff.

The increase in marketing personnel was questioned on various grounds. Since the justification for the increase in personnel was to increase system load, CAC/MSOS noted that this was a longstanding problem, and questioned by six new positions now were required to address this. Although Centra has indicated that these increases are not driven by preparation for competition, it also indicated that many of its efforts are driven by competition. Accordingly, CAC/MSOS argued that the ratepayers should not be required to assume such costs.

With respect to the pay-at-risk incentive program, CAC/MSOS argued that as a matter of principle the ratepayer should not pay for any incentive program tied to the performance of Centra. It is not the ratepayer, but rather the shareholder that benefits from Centra earning more than its allowed rate of return. Therefore the incentive program should be funded by the shareholder.

CEPU argued that the benchmarking study demonstrated that Centra had below industry costs in distribution and customer service and that Centra was a superior performer. Furthermore, the employees of Centra were able to deliver a high level of service and satisfaction to the ratepayers.

The Board was urged by HVAC to only approve shared services if it were convinced that these services either saved costs previously incurred by Centra or these shared costs increased customer satisfaction.

10.8 Board Findings

10.8.1 Overall 1996 and 1997 Operating Costs

Although in a period of low inflation, the operating expenses of Centra continue to rise. Some of the operating expenses have risen due to an increase in the number of customers and the extra expenses required to provide service. From 1995 to 1997 customers, employees, and operating costs have increased. Notwithstanding the increase in customers, however, the costs per customer has increased from $202.24 to $204.67. The Board questions what increased services the customer is receiving because of this increased cost, especially since this is not a period of major capital expansion of the distribution facilities, with the exception of the rural gas expansion. Centra's evidence supports the Board's findings, as Centra's customers are expecting the same level of service or more service for less money.

Centra believes that this application reflects its commitment to cost control while ensuring a safe reliable distribution system. Centra has demonstrated numerous areas in which cost control has been exercised. However, there are two areas in which the Board is of the opinion that Centra could have exercised greater cost control while maintaining a safe distribution system - payroll increases (including employee benefits) and shared services.

10.8.2 Payroll and Employee Benefits

An annual payroll increase of 2 percent is approximately in keeping with inflation, but is, on the other hand, high when compared to the public sector and many other private sector entities where employees have experienced decreases in salary. While the Board will not dictate nor set the level of compensation and annual adjustments thereto, the Board will comment on various aspects of employee compensation and benefits costs.

Centra has stated that it plans to move towards a performance based compensation scheme for the entire employee contingent. The Board does wish to note that if Centra applies for the inclusion in revenue requirements of performance based compensation in future applications, the Board would urge Centra to bring such a proposal forward on a comprehensive basis which examines all aspects of employee compensation, including an update of the Towers Perrin study prepared several years ago.

As for the pay-at-risk form of executive compensation, the Board agrees with Centra that there are alternative methods of paying executives other than just the base salary. However, while Centra suggested a base salary and then an additional amount relating to the risk, based on a budgeted target, the Board believes that the shareholders and not the ratepayers should be responsible for the pay-at-risk element of compensation based on the budgeted target profitability of Centra. A similar form of bonus compensation was applied for in the last GRA and was refused by the Board. The Board does not believe that any new evidence has been brought forward to warrant changing its previous decision in this matter. **Accordingly, the Board will order that the short-term incentive compensation program included in revenue requirement be reduced from $225,000 to the 1995 level of $160,000.**

While the Board recognizes that on a global basis, human resource requirement needs change with new priorities, such requirements should, to the greatest extent possible, be met from within the existing human resource complement. While the Board also recognizes that to do so, requires the efforts and co-operation of all parties, including the employees; the end result must be to deliver customer needs efficiently and effectively. To suggest that the changing priorities of the Company must be met by increasing human resources and costs at a time of limited customer growth is contrary to the normal business practices of the 1990s.

With respect to the Application before the Board, Centra is requesting that the Board approve revenue requirements over 1995 levels to add 47 positions, 27 of which will be from within the existing staff complement. The Board is of the view that a more aggressive approach should have taken place from within to meet the needs of 20 new positions, especially in light of the significant investment made in technological improvements, coupled with the training and refocussing efforts made over the last few years.

The Board has not seen the benefit of these investments showing up as productivity improvements but sees, instead, an additional resource request of 20 to meet existing customer service loads. Accordingly, the Board finds that Centra has not pursued operating efficiencies with the vigour necessary to meet customer and Board expectations. To recognize the growth of the Utility, since the last Order of the Board, **the Board will allow additional revenue requirements related to 2 of the requested 20 additional new positions. The revenue requirement related to the remaining 18 positions will be denied.**

As a general observation, recognizing that of the 20 new positions, a number were for increased human resource capability in the Marketing Department, and while the Board appreciates that increased customer attachments increase flow-through which benefits all customers, the Board questions that the specific investments in developing end use technologies should be made by all customers. This observation is even more questionable when these investments are targeted for business and industrial activities which may be better addressed by others in the competitive community.

This issue, in light of the evidence of "handing over" some projects to the unregulated affiliate, suggests to the Board that a "pause" is necessary to define more strategically the marketing goals of a regulated LDC and the resources necessary to meet those goals and objectives.

Although Centra presented strong evidence and arguments that the LDC is required as the impetus to develop and research such applications, the Board is of the opinion that a more careful examination of the marketing focus is necessary prior to the Board supporting an increased revenue requirement as outlined in Centra's application.

With respect to all the other new human resource revenue requirements, the Board urges the utility to re-priorize its existing human resource complement to ensure that it emphasizes the safe and efficient operation of its distribution system.

Accordingly, the Board orders that the increase in revenue requirement due to the addition of 18 of the 20 new positions be denied.

10.8.3 Benchmarking Study

In Board Order 8/94 the Board directed Centra to pursue the development of various performance measures such as average cost per customer and time per service call and other forms of benchmarking. Centra has complied with this directive by producing internal and external benchmarking and performance measure studies.

In ordering Centra to prepare a benchmarking study, the Board had originally envisaged an exact and finite comparison of data comparing different Canadian LDCs, similar to what is prepared by the Canadian Electrical Association Committee on Corporate Performance and Productivity Evaluation which compares performance measures of different Canadian electric utilities.

The Board recognizes that due to non-cooperation from the LDCs, Centra was unable to produce a benchmarking study comparing itself to the other LDCs in Canada, similar to that prepared for electric utilities by the Canadian Electrical Association. Unless the Board can get such a finite comparison, then a benchmarking study is of little use to the Board other than to provide extremely broad general indicators of Centra's position vis-a-vis other North American LDCs. Such minor benefits must be compared to the costs of producing such a benchmarking study. The Board thanks Centra for undertaking and preparing these benchmarking studies, but acknowledges that it can take little comfort from the analysis and data contained therein. Accordingly, the Board will not require Centra to continue in providing benchmarking and performance measures, as the significant cost is not warranted by the limited use that can be made of the data. This matter may be reconsidered in the future should other LDCs take a more cooperative position with sharing their data.

10.8.4 Shared Services

The Board agrees with the position put forward by Centra that they receive a number of benefits from shared services. The Board has difficulty though in arriving at the conclusion put forward by Centra that benefits from the shared service package far outweigh the costs. The Board has concerns about the increased levels of shared services. Not only are these shared services difficult to define but they are also difficult to monitor and determine whether the utility is receiving value for its cost. Although Centra's witnesses attributed cost increases to the new cost allocation methodology which allocated costs previously not allocated, the Board is concerned that some of these costs are incurred by the shareholder in its business and capacity of owning Centra and should not, in principle, be allocated to Centra and be paid for the ratepayers.

Forecasted shared service costs for 1997 are summarized in the response to PUB 43, and consist of four major cost categories being Corporate Centre Shared Services ($352,000); Governance ($203,000); Miscellaneous Shareholder ($95,000); and Pipeline Shared Services ($124,000).

The various cost components under the Corporate Centre Shared Services category include information services, human resources, investor relations, taxation and audit, and corporate planning. With the exception of treasury and investor relations, these costs were all categorized by Ernst & Young as "direct". The Board has reviewed these cost items and has concluded that these shared services appear to represent direct benefits to the customers of Centra. In addition, this cost category taken as a whole have in fact reduced by approximately $30,000 from 1995 levels.

The Board has difficulty in accepting the significant cost increases in other areas of shared services where the direct and indirect benefits to Centra customers are less obvious, and the costs have increased dramatically from 1995 levels. These categories include Governance of $203,000, an increase of $175,000 from 1995; Miscellaneous Shareholder of $95,000, an increase of $47,000 from 1995; and Pipeline Shared Services of $124,000, an increase of $108,000 from 1995 levels. The value received by Centra related to the Pipeline shared services was not addressed in the Ernst & Young report, and the remaining categories were functionalized as either "Access to Capital" or Governance".

Accordingly, the Board views the large increases in shared services as inappropriately high and is not convinced that Centra receives only those shared services which it really requires and receives benefit from. **Accordingly, the Board will, for purposes of setting revenue requirement, allow the level of shared services at that of the same level approved in 1995 which is $486,000.**

10.8.5 Bad Debt Expense

The Board will approve the bad debt expense component of revenue requirement at the requested amount of $900,000 and will approve the continuance of the bad debt deferral account for 1997. The Board encourages Centra to continue in its credit and collection efforts. **The final disposition of any remaining deferral account balance should be reviewed at the next GRA.**

11.0 Amortization Expense

The 1997 Test Year amortization expense of $4.3 million shows an increase of $1.9 million over the last approved amount. This net increase is attributable to increases in amortization expense due to amortization of both the 1996 Generic Hearing ($1.1 million) and the Cost of Service Study ($318,000) in 1997, and reductions in expense due to the Propane Storage Plant being fully amortized in 1996. The following table shows the various components of the requested amortization expense.

	(in 000s)			
Component	**Balance Dec 31/96**	**Additions**	**1997 Amortization**	**Balance Dec 31/97**
General Rate Applications	1112	1,125.1	1,141.3	1,095.9
Generic Hearing Application	1,040.1	27.4	1,067.5	0.0
Long Term Storage	201.9	6.4	166.0	42.4
Propane Storage Plant	0.0	0.0	0.0	0.0
Technical Platform Study	164.6	4.3	168.9	0.0
Cost of Service Study	310.1	8.2	318.3	0.0
Meter Shop Study Costs	78.1	1.0	79.2	0.0
Peak Shaving Facilities Retirement	6,070.8	835.9	1,387.8	5,518.9
Total	**$8,977.6**	**$2,008.3**	**$4,328.9**	**$6,657.1**

11.1 Propane Peak Shaving Facility

As discussed in Section 6 of this Order, the Board will approve the removal of the residual net book value of the propane peak shaving facility from Rate Base, as requested by Centra. Centra further requested that this facility be amortized over 12 years, which was the remaining useful life of the asset, and that Centra be allowed to earn a return on this amortization amount equal to the overall rate of return. Centra has not been successful in its attempts to sell the peaking facility, but indicated it would continue efforts in this regard. Should such efforts prove unsuccessful, Centra indicated that the cost of removal and disposal of this facility would be in the range of $800,000 to $1,000,000.

Centra requested to earn its allowed rate of return on the amortized amount because:

1. The removal of the facility would result in a financial benefit to the consumer and the decision to remove it is prudent.
2. The original investment was found to be prudent at the time it was made.
3. The facility is a long term asset that was funded by both debt and equity.

Centra submitted that because of the above factors, its shareholders should be saved harmless by the regulatory treatment of the retired asset and that this could be best accomplished by allowing Centra's proposal.

11.2 Hearing Costs

The generic hearing costs are anticipated to include costs incurred by Centra, the Board and CAC/MSOS only. These costs, estimated at $1,067,500 including carrying charges, are planned to be amortized completely during 1997. These costs include Centra's costs, the forecast cost of interested parties that may be the subject of an award of costs, and the costs of the Board. During the hearing Centra filed an exhibit which indicated that forecasted generic hearing expenses include consultant fees totalling $226,945 and legal fees totalling $385,294.

The Cost of Service and Rate Design hearing costs of $318,000 incurred in 1996 are also planned for complete amortization in 1997. These costs include Centra's costs, the forecast cost of Intervenors that may be the subject of an award of costs and the costs of the Board.

Amortization expense for GRAs has been reduced from the previously approved cap of $1,200,000 to $1,150,000. This amount represents the residual carry forward of all GRA costs up to and including the 1997 Test Year hearing. .

11.3 Intervenor's Positions

It is CAC/MSOS' position on the amortization treatment of the propane peak shaving facility, that the annual amortization amount that should be recovered from ratepayers reflect only the value of the plant net of any recovery in selling the plant at market value. Assuming that the correct depreciation rate was applied to the plant by Centra, the value of the plant to a new owner in the propane business could be close to or more than its current book value. CAC/MSOS therefore submitted that no amortization of the propane facilities and should be permitted for rate setting purposes until the market value of the plant has been established, either through the sale of the plant or through evaluation of the plant as a conventional propane production facility. CAC/MSOS agreed to Centra's proposal that the deferral account be amortized over 12 years. However, this account should include carrying costs to be calculated on Centra's short term cost of debt rather than its long term cost of debt. CAC/MSOS argued that it would be unfair to consumers to allow Centra to earn an overall or a long term rate of return on assets which are no longer in use.

Municipal argued that since the storage facilities now serve the purpose of the peak shaving facilities, the cost of the retirement of the peak shaving facilities should be included as a cost of storage and not be allowed into rate base. This was especially important if storage were to become unbundled and competitive, then the ratepayers should not be subsidizing the storage costs.

Municipal requested that the costs of Centra for the Generic hearing held in 1996 not be included in the revenue requirement and rate base since the outcome of the Generic hearing will benefit the competitive affiliates of Centra and not the ratepayers of the LDC.

11.4 Board Findings

11.4.1 Propane Peak Shaving Facility

If a regulated utility acquires an asset that is used, useful and prudently acquired, the utility is entitled to earn a fair rate of return on that asset throughout its useful life. If circumstances subsequently shorten the useful life of the asset, the utility remains entitled to earn a return on that investment. The treatment proposed by Centra for the recovery of the undepreciated investment in the facilities over the remaining original life of 12 years is reasonable and appropriate. The recovery will be accommodated through an amortization account with full rate of return treatment. Centra will also include any future salvage value or disposal costs in the amortization account. The Board will approve that treatment.

Although the treatment proposed by Centra is reasonable in the current circumstances, the Board is concerned about future salvage value and decommissioning costs, as well as the amortization period, particularly in light of the many uncertainties related to such things as competition and other pending developments in the gas distribution business.

The Board will approve Centra's request that the amortization term be 12 years and that it be allowed to earn the approved overall rate of return. Centra is requested to provide the Board with an updated report concerning the decommissioned propane facilities by no later than August 31, 1998. This report should address, among other things, updated information on salvage value, decommissioning costs, amortization period and appropriate return on net investment. At that time, the Board may wish to reconsider the appropriate allowed return on the net investment, as well as the appropriate amortization period.

11.4.2 1996 Generic Hearing Costs

The Board is not convinced that all of the costs incurred by Centra as a result of the generic hearing are to the benefit of the customers of Centra. In particular, the Board is not convinced that 100% of the professional services fees were dedicated to serving singularly the regulated utility and its customers. As a result of these concerns, the Board is not convinced that the full cost of the generic hearing should be funded by Centra customers. Furthermore, much of the focus of the generic hearing centered on Westcoast's future strategies, the relationship between Centra and Westcoast and the relationship between Centra and its affiliates. The Board therefore views it as appropriate that Westcoast, as shareholder of Centra, assume a portion of the costs of the generic hearing. **Accordingly, the Board will require that the generic hearing cost of $1,067,500 as applied for by Centra, be reduced by $200,000. The Board will further require that the generic hearing costs be amortized over a five year period commencing in 1997.**

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12.0 Other Expenses

12.1 Depreciation Expense

The 1997 depreciation expenses of $12,495,700 represent an increase of $910,300 over the 1996 expense and an increase of $893,500 over that approved in the 1995 forecast GRA. The increase is mainly the result of plant additions, customer contributions, offset somewhat by the proposed treatment of the propane peak shaving facility which was retired in December of 1995. The commencement of depreciation of plant installed in Centra's new rural expansion areas also increased depreciation of the EMR/ERT modules of 6.6%. All other depreciation rates were previously approved by the Board.

12.2 Municipal and Capital Taxes

The municipal tax component of 1997 revenue requirement is estimated to be $11,456,400, representing an increase of $365,700 (3.3%) over the actual 1995 amount. The increase represents a 1% actual increase in City of Winnipeg billings and estimated 1996 2% rural general mill rate increase. Additionally the increase for 1996 included estimated taxes for the additional plant installed under the expansion program, offset somewhat by the retirement of the propane peak shaving facility. The 1997 municipal tax increase was estimated at 2.24%, including an estimated 2% general mill rate increase.

Centra appealed it personal property tax assessments from the City of Winnipeg for each of 1994, 1995, and 1996 and in several rural municipalities for 1995 and 1996. The Manitoba government amended the *Municipal Assessment Act and Assessment Validation Act* in April 1996 to remove the right of Centra to appeal its assessments. At the time of filing the application, Centra's understanding was that there was a high probability that the amendment would pass and therefore did not decrease any of its estimated municipal tax assessments for this application. This amendment has subsequently been proclaimed.

The Manitoba Corporate Capital Tax rate for Centra is unchanged since 1995. The increase in this tax component of $296,700 (29.4%) is due to an increase in Centra's taxable capital consisting of capital stock, retained earnings and indebtedness. Total 1997 Municipal and other Taxes are estimated at $12,904,400.

12.3 Income Taxes

The 1997 income tax requirement, based on Centra's revised application is $13,456,200 for projected 1997 revenues, including the effects of an agreement between Revenue Canada and Centra among other natural gas LDCs. After allowing for tax provisions for the 1994 rural expansion deferral of $507,000 and 1996 generic hearing deferral of $450,200, the net tax payable for 1997 was estimated to be $13,006,000. The 1997 tax expense was calculated in a manner consistent with that used in the 1995 test year GRA except for the Revenue Canada-Centra agreement. This agreement changes the way in which Centra is required to treat its unbilled revenues amounts and certain deferral accounts (such as the PGVA) for income tax purposes. Centra testified that this treatment, which is now an industry wide requirement, will more closely align Centra with other utilities and non-utility companies in the matter of income tax calculation.

12.4 Intervenors' Positions

No intervenors adopted positions on any of these other expense items discussed in this section of the Order.

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12.5 Board Findings

As discussed in other sections of this Order dealing with Rate Base matters, the Board will not allow certain items of plant installed in 1995 and 1996 and proposed to be installed in 1997 into Rate Base. Additionally, the Board has directed certain changes to operating and maintenance and amortization expenses. These Board directed changes will affect depreciation expense and municipal and other taxes, and will result in a change to the required income tax.

Other than those specific changes, the Board will allow the request in respect of depreciation rates, proposed general mill rate increase, and increase in the Manitoba Corporate Capital Tax and increases attributable to rate base additions still remaining after Board directives in this regard have been met. The Board will require Centra to refile all applicable schedules to reflect the decisions contained in this Order.

13.0 Other Income

Other income of $2,351,000 reflects a decrease of $298,300 from other income approved in Order 49/95. Other income includes revenue from finance contracts, late payment charges, administration charges to brokers and rental income from conversion burners.

13.1 Finance Plan

Centra currently offers a Finance Plan to its customers to encourage the purchase of natural gas appliances and equipment. Due to the availability of financing alternatives in the market place and to regulatory environment changes, Centra has decided to discontinue this program effective December 31, 1996. No new contracts will be initiated after that date and the contracts that remain at that time will be carried in the utility until they are paid out. Centra Energy Services would be commencing a new financial plan on January 1, 1997.

Approximately 8,000 contracts, representing a value of $8.4 million are forecast to remain at the end of 1996, the program's discontinuation date. During 1997, repayments of $3 million are forecast, resulting in an ending balance of $5.4 million. Income from finance contracts, based upon an average in interest rate of 12.9%, reduces from $954,000 in 1996 to $778,300 in 1997 due to the declining outstanding balance. 1997 operating expenses have been reduced by approximately $60,000.

13.2 Re-Inspection Fee

In opening comments at the hearing, witnesses for Centra indicated that it was seeking approval for a new charge of $55 to recover Centra's costs for the additional work incurred to deal with infraction reports arising from new or replacement gas installations. Centra is responsible under the *Gas and Oil Burner Act* for completing an installation inspection to ensure compliance with the CGA B-149 installation code. Upon completing the inspection, an infraction report is issued to the contractor if an infraction or problem is discovered. Once corrected, Centra re-inspects the installation to ensure correction. The re-inspection fee would then be charged to the contractor.

Centra argued that, as the re-inspection caused additional costs, the ratepayers should not pay for the errors of certain contractors. Furthermore, by charging for re-inspection, safety of the customer will be enhanced, costs will be reduced, and contractors will make a greater effort to do quality work. Centra also indicated that this re-inspection fee would generate approximately $20,000 in incremental revenue. The charge was set at $55 which is the standard rate for one hour of work.

Centra indicated this re-inspection fee was inadvertently omitted in the application and public notice. To address public notice concerns, Centra faxed a copy of the proposed re-inspection fee to every heating and ventilating contractor in the province.

13.3 Intervenor Positions

HVAC agued that Centra should not discontinue the finance program because it is a lucrative program and customers appreciate and value the service as indicated by the number of participating customers. Furthermore, since ratepayer money established and advertised the finance program, it would be unfair to the ratepayers to discontinue such a program and could results in an uncompetitive advantage to Centra Energy Services.

As to the $55.00 re-inspection charge, HVAC argued that contrary to the opening statements of Centra, the dealer community was not in support of this as evidenced by the numerous dealers that wrote to the Board protesting this charge. Furthermore, this was a punitive charge as contractors already had incentives to exercise great care initially. HVAC recommended that if Centra wishes to introduce a re-inspection charge, then it should involve the industry representatives and achieve a consensus as to the amount and terms of the re-inspection charge.

13.4 Board Findings

Finance Program

The Board agrees with Centra that undertakings such as the finance program are more appropriately offered by the competitive market rather than the regulated utility. The transfer of a service offering from a regulated utility to the competitive market must proceed on an orderly basis. Accordingly, **the Board directs Centra to continue its finance program until December 31, 1997.** This will allow for a more orderly disposal of the finance program and will permit competitors to prepare for what will be an increase in demand for this service since a major provider of this service, namely the gas utility, will no longer provide the finance plan. Consistent with this Order, other income related to the continuance of this program must be added for rate setting purposes. The Board will approve other income as filed for the purposes of determining revenue requirement, subject to the above adjustment.

Re-Inspection Fee

Significant opposition to the introduction of the new re-inspection fee was demonstrated by the HVAC community. There is a cost to Centra for the required re-attendance for re-inspection, and the Board agrees that the ratepayers should not bear the cost for Centra's re-inspections due to the improper installation of equipment by a contractor. What is at issue, however, is the matter of adequate notice. **Accordingly, the Board will direct that Centra meet with representatives of the HVAC community to discuss if a reinspection fee should be implemented, and if so, determine how, at what rate, and by what conditions the additional charge for re-inspection should be assessed. The Board will not approve the re-inspection fee at this time** but will consider any future application for this fee following the appropriate meetings with the HVAC community, and in particular, HVAC representatives from rural Manitoba.

The Public Utilities Board

14.0 Cost Allocation

14.1 Cost of Service Study

Centra filed an application for approval of a new cost of service study and rate design on May 31, 1996 ("original study"), based on a 1995 test year. In Order 107/96, dated October 17, 1996, the Board approved a cost allocation methodology using a peak and average demand allocator for demand related costs, and defined new customer classes. Centra applied the same methodology to the 1997 test year cost of service study although some details, as discussed later in this section, differed from the original study.

The cost of service study for the 1997 GRA functionalized, classified and allocated a 1997 revenue requirement of $261,377,000 as initially applied for by Centra in August of 1996. Centra indicated that the necessary revision to cost allocation and rate design would be made when all Board decisions in this Order that affect the 1997 revenue requirement were known.

The factors used for the three part process of functionalization, classification and allocation were those approved in Order 107/96, updated to reflect 1997 test year data. Centra also provided the Board with the difference between customer class revenue requirements using both the peak day demand allocator and the peak and average demand allocators, as required by Order 107/96.

The following summary shows the results of the 1997 test year cost of service study using peak day and peak and average day demand allocators and compares the results to the net revenues that would have been generated by approved 1995 rates, and by rates in effect from July 1, 1996 to December 31, 1996 (in 000s).

			1997 Test Year Costs	
Rate Class	1995 Rates	July 1 1996 Rates	Peak Day	Peak and Average
Small General	$160,061	$159,609	$161,032	$159,704
Large General	72,312	71,710	71,357	70,589
High Volume Firm	11,280	11,176	10,326	10,374
Mainline	6,893	6,893	4,415	4,598
Interruptible	18,519	18,598	13,428	15,230
Special Contract	932	932	820	882
Total	$269,996	$269,817	$261,378	$261,377

One change from the original study related to the proposed retirement of the propane peak shaving facility. Because of its use as a peaking supply, the original study functionally classified this plant into Production Demand. In this application Centra proposed to remove the peak shaving plant from rate base and to amortize the residual net book value over a 12 year period, and to functionalize the amortization expense in proportion total plant in service. Centra submitted that this was appropriate because the propane plant had become a regulatory expense, rather than a gas supply cost, and should therefore be recovered through a surcharge on Centra's other regulatory assets.

Another change involved the treatment of Customer Service Expenses which are now assigned to the On-Site function and allocated to customer classes based on the relative number of calls by class. The former method functionalized these costs 50% to distribution and 50% to customer service and allocated them to customer classes on the basis of transmission, distribution, or on site plant in service. A further change was the functionalization, classification and allocation of Transportation Expense, Tools and Work Equipment and Heavy Equipment on the basis of Responsibility Centre factors, as opposed to proportionate labour expenses used in the original study. Minell Pipeline costs, originally assigned to the Pipeline function, were functionalized to Transmission in this application.

Centra also proposed a change in the allocation of the demand related component of transmission costs and corresponding contributions in aid of construction in the rural expansion areas so that all these costs would be allocated only to the SGS and LGS customer classes. Centra contended that this was appropriate as no customers from classes other than SGS or LGS were currently served in the rural expansion areas.

ERT related costs were assigned directly to the residential (SGS) class as all costs relate to residential premises. Costs related to Pineland Nursery service and the Simplot measuring and regulating station were also assigned to the customer classes containing these customers. Plant additions necessary to serve McCains Foods were included in general system costs rather than being directly assigned to McCain's customer class. Centra contended that this specific plant expansion was related to overall system distribution and transmission rather than to on site.

Centra also modified the proposed method of calculating billing demands for Mainline, High Volume and Interruptible customer classes, to reflect diversity between customers within a class. The original study assumed that all customers within a class would peak on the same day. Centra submits that this is not realistic, given that process loads for large volume customers have a greater impact on daily use than does weather. Centra estimated that the sum of monthly peaks for individual customers would exceed the class coincident peak load by 15%. As a consequence, Centra increased the expected billing demands by this amount.

14.2 Intervenors Positions

Both CAC/MSOS and Municipal commented on cost of service matters. CAC/MSOS argued that transmission related costs in the rural expansion areas should not be viewed as being so customer specific as to justify a direct assignment to only two specific customer classes. CAC/MSOS argued that the principle put forward by Centra in another part of the application should be adopted, that "...While a capital expenditure is indicated to serve a specific customer, the approved principle in the Review is that all customers should pay a pro-rata share of the total system rather than customer-specific, geographically based and distance-sensitive costs" should be followed.

CAC/MSOS also objected to Centra's proposed allocation of 80% of uncollectible accounts to the residential customers which was approved by the Board in Order 107/96. It contended that, while the data from three years commencing in 1994 might indicate this to be the appropriate proportion, the real possibility and risk of a large volume customer defaulting in payment of its account was not considered. CAC/MSOS requested the Board direct Centra to recalculate this allocation to take into account this risk.

Municipal recommended that propane peak shaving facility retirement costs should be functionalized and classified to storage and should not be recovered from all ratepayers as a regulatory cost, as requested by Centra. Municipal suggested that if storage costs were to be unbundled, any of Centra's storage costs

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passed on to rate payers should contain the cost element related to this peak shaving facility, as it was originally acquired for this purpose.

14.3 Board Findings

As discussed in Section 13.1 of this Order, the Board will approve Centra's requested regulatory treatment of propane peak shaving facility. The Board will require that this expense be functionalized into storage and be classified as a demand cost for allocation purposes.

The Board recognizes that the original cost of service study was based on 1995 test year results and that the results would, of necessity, be different when the 1997 future test year data were considered. Additional and more detailed information is now available and Centra has updated specific data to functionalize, classify and/ or allocate costs. The Board considers Centra's revised proposal for the treatment of the Transportation, Tools and Work Equipment and Heavy Work Equipment accounts and expenses on the basis of Responsibility Centre costs to be an example of an appropriate refinement and will allow this requested change. In a similar fashion, the Board considers that the functionalization of the Minell Pipeline costs as Transmission rather than Pipeline more accurately reflects the fact that operationally, this pipeline is a component of Centra's transmission system, as opposed to being an interprovincial pipeline as is the TCPL system. **The Board will allow this change as requested by Centra.**

The Board concurs with the position put forward by CAC/MSOS with respect to the allocation of transmission costs in the rural gas expansion franchise areas. The Board considers that, up to the present time including the rural expansion projects, the "postage stamp" approach to rates has been accepted by this jurisdiction. The Board considers that the request to allocate costs specifically to the SGS and LGS customer classes is not appropriate, as customer attachments in classes other than the SGS or LGS class are probable in these areas in the future. Furthermore, it is possible to isolate other specific geographic areas within the Province which exclude certain classes of customers and to accord such areas similar treatment. The Board does not consider such an approach to be either reasonable or equitable and will therefore not allow this change. The Board also considers that the proposed treatment of the McCain's plant expansion would be inconsistent with Centra's proposed treatment of rural expansion transmission costs.

With respect to the proposed change in the method of calculating the billing demands for the Mainline, High Volume Firm and Interruptible customer class, the Board considers reasonable the assumption that not all high volume customers will peak coincidentally with the class peak. . The Board will allow the proposed upward adjustment of customers' expected billing demands by 15% for purposes of 1997 rates, but will expect Centra to review this matter and to confirm or revise the billing demand calculation method at the next GRA. Since the Board has not approved the OMR project as requested by Centra, there is no need for the ERTs to be included in the cost allocation study.

The Board will not require Centra to change its allocation method for uncollectible accounts at this time. The Board will, however, require Centra to review this issue and to provide the Board with a history of any large volume customers (other than SGS or LGS 4 customers) who have defaulted in account payments in the past five years at the next GRA.

15.0 Rate Design

15.1 General

Centra's original May 31, 1996 cost of service and rate design application requested Board approval of rate design principles and included resulting rates, based on 1995 test year data, for illustrative purposes. In Order 107/96 the Board approved Centra's proposed rated design structure in principle but did not specifically approve the requested three part rate. The Board instructed Centra to provide intra and inter customer class impacts resulting from that decision at the 1997 GRA. The Board further required Centra to review and report on the eligibility criteria for Mainline customers, and on the eligibility and grandfathering provisions of the small volume Interruptible customers. Centra was also required to submit a plan with respect to the fixed monthly charge for SGS customers and to provide impacts on those interruptible customers who would be required to accept firm service upon expiration of their interruptible service contracts with Centra.

15.2 Revenue to Cost Ratios

Centra's requested rate structure and rate design is generally consistent with that approved by the Board in Order 107/96. Centra stated that the rate design process consists of four basic steps: establishment of a revenue to cost (R/C) ratio for each class; evaluation of unbundled unit costs against other rate design objectives; establishment of actual rates to recover each customer class revenue requirement; and review and incorporation of changes to the existing Terms and Conditions of Service to better implement the desired rate design.

Centra requested that the R/C ratio for all customer classes be set at 1.0 at this time. Centra suggested that while historically a range in R/C ratios of 3% around unity has been accepted, the recently approved cost of service peak and average methodology already had incorporated the concept of fairness at the cost allocation step. As a consequence no further concepts of inter-class equity or fairness were required. Furthermore, Centra argued that its largest customers are supportive of cost based rates as represented by a R/C ratio of unity and that the rate design for Centra's largest customer categorized as a Special Contract, utilizes a R/C of unity. Centra further contends that the 1997 GRA provides an ideal opportunity to move the SGS class R/C ratio (the only class with an existing R/C ratio of less than 1.0) to 1.0 without unduly impacting customers in that class. Centra also suggested that the move to unity would be supported by the consultant retained by Centra to prepare the original cost of service and rate design study, and would also likely be supported by Intervenors present at that 1996 hearing. As a last point, Centra submitted that as there is greater movement to unbundling more costs and services, the use of a R/C ratio other than unity would raise administrative and implementation difficulties and cross subsidization would occur.

15.3 Unbundled Unit Costs and Rates

While Centra's current unbundled services only encompass either a sales service or a delivery service (T-Service), Centra is proposing to unbundle its rates into three components to provide better cost information for the customer. The unbundled rates would show the three elements being Production commodity, Storage and Transportation, and Delivery separately. In its original study Centra had proposed to group the three elements as Production and Pipeline, Storage and Delivery. Centra suggested that its proposed change is more useful for its customers as Production is viewed as a separate element of Centra's sales service.

15.4 Rate Design Objectives

Centra continues to believe that the basic monthly charge should be increased so that it recovers all the fixed costs of providing the service at some time in the future. Centra has not yet determined when that will occur and requested that the basic monthly charge remain at $10 for the SGS class for 1997 with that portion of fixed costs not recovered by the basic charge recovered through the commodity charges. Centra suggested that considerable dialogue and customer education would be required before any significant move towards a higher basic charge could be accepted by the customers.

Centra also proposed, consistent with the original study, that a customer be allowed the option of being in either the SGS or LGS class. Centra originally proposed that the basic monthly charge for the LGS class be set at $87.71. At this amount, the economic break-even point would occur at an annual consumption of 17,515 cubic metres. Subsequent to a Board request made during the hearing, Centra suggested that a phase in of this charge to ultimate levels could serve as a mitigative measure against large indicated increases for a small volume LGS 4 customer. Centra suggested that a $70 basic monthly charge would be appropriate. At this level, the economic break even point would be an annual consumption of 14,604 cubic metres. Because of the relative economics of a move between rate classes, Centra did not expect much movement, but would consider implementing a service charge if movements between classes became administratively burdensome.

Centra proposed to implement the three part rate for the High Volume Firm, Mainline and Interruptible customer classes. Centra contended that this approach was consistent with Order 107/96 as the Board agreed with this concept in principle, but wanted further information on customer impacts. The Board also required Centra to communicate directly with customers who would have a three part rate structure imposed. Centra stated that all effected customers had been informed of their specific impacts and were afforded an opportunity to have their view made known at this hearing. Centra argued that the implementation of a three part rate had no effect on revenue requirements between its various customer classes and only impacted customers within a specific class.

The basic monthly charge would recover all of the fixed costs of these three classes. However, in order to mitigate against adverse customer impacts for low load factor High Volume and Interruptible customers, Centra requested that only 50% of the demand related costs be recovered through the demand charge, with the balance of the demand charges being recovered by an increased commodity charge.

Centra proposed to recover 100% of the demand related costs from the new Mainline Class, as the movement to this class, even with the 100% demand charge recovery, would result in those seven customers paying less than they would have under the old allocation methodology and rate structure. Centra also requested approval for the creation of a Mainline Customer sub-class, that of Interruptible Supply/Firm delivery, at Centra's discretion. Centra considered that such a subclass could result in significant advantages to the management of Centra's gas overall supply. This subclass would have the delivery component reflect firm service costs, but the Production and Storage and Transportation components would be at Interruptible service rates.

Centra did not propose any change in its Special Contract rate which will continue to recover costs of providing the service. Centra stated that discussions were being held with the one Special Contract Customer to determine the future rate design best suited to both parties.

15.5 Implementation and Terms and Conditions of Service

Centra stated that there were three main areas of concern with respect to the implementation of the proposed rates. The first relates to the introduction of the demand billing for the High Volume, Mainline and Interruptible customer classes, which requires daily meter readings. Centra is scheduled to have electronic meter reading available for those customers (approximately 154) by the spring of 1997. Until that time, Centra proposed to have its customers phone in daily readings. Additionally, until a new billing system which will be capable of billing under the three part rate structure becomes operational, Centra proposed to prepare invoices manually for those customers.

Centra proposed to determine demand charges by using the highest daily demand experienced during the five month winter period (November to March) and to use this level for billing for the next eleven months. A potential concern is that some of Centra's largest customers experience peaks during the shoulder months, that is in either early November or late March. Centra contends that peaks at these times do not impose any additional capacity demands or costs on the system and therefore billing demand charges based on these levels would not be fair to these customers. Centra proposed to incorporate terms and conditions into contracts with these customers so that they would not incur demand charges for such incidental uses during these periods. Such customers would be served either under an interruptible contract, at Centra's discretion, or alternatively would have to pay the peaking gas rates or the applicable demand charges.

Centra also proposed to revise penalty provisions to be applicable to interruptible customers who do not curtail consumption when requested to do so by Centra. The proposal is to require curtailment on two hours notice and failure to comply would result in a penalty which would require the customer to pay applicable firm service rates for the next 12 months. Additionally, the customer who fails to curtail would be required to pay the appropriate commodity premium for gas consumed, at the rate which Centra could obtain for peaking gas for that time, and a delivery charge equal to the LGS commodity rate for delivery service. Centra proposed to incorporate those provisions into its Terms and Conditions of Service.

Centra indicated that because of the anticipated doubling of Centra's Special Contract demand customer in 1998, the rate design for 1998 would require review and a rate restructuring.

Centra stated that it would be revising the Terms and Conditions of Service to incorporate a general restatement, inclusion of new rate classes, new rate structures, including three part rates, penalty provisions for Interruptibles, clarification of peaking supply service and Centra charges for reconnection of service. The service reconnection fee was intended to discourage customers from requesting their service to be disconnected and then reconnected merely to avoid paying the basic monthly charge for several low consumptions months. The increase in the basic monthly charge for the High Volume, Mainline and Interruptible vendors makes the existing reconnection charge inadequate to discourage this practice. Centra proposed to increase the reconnect fee to the existing $48, plus the basic monthly charge, times the number of months a service is disconnected. For three part rate customers, demand charges would also be included. Reconnection fees would be capped at 12 months worth of charges.

Centra stated it would respond to Board Order 107/96 directives related to "almost" Mainline customers, eligibility criteria and grandfathering of interruptibles at a later date.

15.6 Customer Impacts

In Exhibit Centra #79, filed at closing argument on December 10, 1996, Centra estimated customer impacts to be between a 1.6% and 2.0% increase for the SGS class and from a 20.2% increase to a 1.9% decrease for the LGS class, depending on consumption. The large increase in the LGS class occurs at consumptions up to approximately 1,000 cubic meters, because of the proposed increase in the basic monthly charge from $50 to $70. The new SGS and LGS customer classes contain approximately 239,472 customers of a total 1997 customers estimated to be 239,631.

The balance of the customers, excluding the one Special Contract customer, would fall under the three part rates structure. These customers would be in the High Volume, Mainline or Interruptible customer classes. The impacts for these customers, as submitted by Centra, vary from increases in the order of 700% to decreases of some 75%. These varying percentages resulted from the institution of the three part rate and the institution and/or increase in the fixed monthly charge. During the hearing, Centra suggested that these numbers were somewhat misleading for several reasons: small consumption customers which resulted in large percentage increases had relatively small dollar increases, existing customers with large potential increases had, or would restructure operations to mitigate against these increases, and potential movement from one proposed class to another.

15.7 1996 Base Rates

Centra did not file for rates based on a 1996 test year and in this application is requesting that 1996 interim base rates be approved on a final basis. Those base rates did not incorporate any changes from the 1995 test year data, except for the cost of gas. The 1996 base rates have never been in effect, given that the current and previous rates contained numerous rate riders related to various deferral accounts. The Board is aware that any decisions in respect of 1996 expenditures would change the 1996 base rates but such change is without effect to the rates. The approval of 1996 base rates will only serve to finalize an interim rate. However, any changes to the 1996 Rate Base, and particularly capital expenditures will have an impact on 1997 revenue requirements.

15.8 Intervenors' Positions

CAC/MSOS recommended that the Board instruct Centra to review its proposal related to the demand billing determinations where customer peaks occur at times outside class peak periods. CAC/MSOS recommended that this review encompass the number of such customers and a confirmation that these customers are paying a fair share of the costs.

No other intervenor commented on the matter of rate structure. Several intervenors made recommendations with respect to interim rates and these were considered by the Board prior to issuing Order 125/97 approving January 1, 1997 interim rates. Several parties made representation to the Board, objecting to the requirement that supply be curtailed on two hours notice from Centra, and to the proposed penalty provisions for failures to curtail.

15.9 Board Findings

In approving Centra's new cost of service methodology and rate design proposals in Order 107/96, the Board accepted the peak and average demand allocator as being appropriate because it was of the opinion that this method reflected the proper mix of system capacity cost causation and system operation. In that Order, the Board expressed the hope that this allocation methodology could be used for many years. The Board considers that concepts of customer class equity and fairness have been accommodated at the cost of service phase and agrees that further equity and fairness considerations, as reflected by R/C requirements, should be based on recovering 100% of the costs as determined by the cost of service study. The Board will require that R/C ratios be at unity. However, the Board may wish to phase in those ratios over some period of time, depending on customer impacts. The Board will not be able to assess these impacts until Centra refiles material to reflect all Board decisions contained in this Order. Accordingly, the Board will reserve judgement on this matter until it reviews the refiled material.

The Board will accept Centra's proposal for indicating unbundled costs on a customer's invoice for the three elements of costs: Production, Storage and Pipeline, and Delivery. The Board will review the matter of how best to define Production and Transportation costs with Centra and will expect that Centra submit proposed invoice formats to the Board prior to finalizing the formats.

The Board notes that the basic monthly charge for all rate classes, other than the SGS class is, or is proposed to soon be, at the level required to recover Centra's fixed costs. The basic monthly charge for the SGS class remains at $10. The Board considers that, generally, the basic monthly charge is intended to recover the fixed costs allocated to that class. The Board also recognizes that there is a great deal of misunderstanding of and resistance to the principle of using a basic charge, let alone increasing it, from a large segment of the SGS class. The Board will await receipt and review Centra's detailed plan in respect of proposed changes to the basic charge for the SGS class before approving any move in this charge from the current level. The Board expects that such a report will include practices followed by other North American LDCs, proposed customer information campaigns, implementation schedules and transition issues to be considered. The plan must also include inter and intra class impacts on customers resulting from maintaining the status quo and from adopting the proposed plan.

The Board will approve the three part rate design for the High Volume, Mainline and Interruptible customer classes. The Board may, however, require the various components of this rate to be phased in over some period of time for one or more of the customer classes, in order to mitigate against inordinate rate increases. The Board will accept Centra's proposals for determining demand levels as the basis for demand changes, but will expect Centra to keep the Board apprised of any changes as may be necessary as more customer and operational information becomes available. The Board will expect that any such changes will be brought to the Board's attention in a timely fashion. The Board accepts Centra's view that there may be benefits to the overall system by implementing an Interruptible supply/Firm Delivery subclass in the Mainline Customer Class, and will approve Centra's request in this regard.

The Board will approve Centra's request to increase the penalty provisions for failure to interrupt and will approve the continuation of the two hour notice requirement for curtailments. The Board considers that interruptible rate is lower than the firm rate only because it allows Centra the flexibility to manage its daily load requirements on an hour to hour basis. The Board considers that failure to interrupt on this short a notice largely negates the benefits to the system of having interruptible customers. The Board considers it to be the customer's responsibility to ensure that their alternate fuel systems are operational at all times and/or curtailment of supply will not unduly impact their operations or damage property. The Board will however expect Centra to endeavour to inform customers of proposed curtailments as soon as possible and further expects customers to be notified of the possibility of curtailment prior to actually demanding the interruption.

The Board will require Centra to file its revised Terms and Conditions of Service as soon as possible, and not later than June 30, 1997. The Board will review, amend or otherwise deal with this filing on an interim basis in order to accommodate the new gas year. The Terms and Conditions will be reviewed in a public forum at the next GRA or other hearing, as may be required.

The Board will order Centra to file its recommendations in respect of the three outstanding matters arising out of Order 107/96 ("almost" Mainline Customers, eligibility criteria, and grandfathering of Interruptible Customers) by no later than June 30, 1997.

The Board will require Centra to refile its cost of service study, rate design and all customer impact tables to reflect all Board decisions contained in this Order.

16.0 Deferral Accounts and Rate Riders

In conjunction with the 1997 GRA, Centra requested Board approval for a review of the status and disposition of the estimated residual balances of certain 1995 and 1996 gas cost related deferral accounts. The Board approved the disposition of the 1995 PGVA of $7,290,683, including impacts of 1995 price management activities, 1995 Non-traditional revenues of $2,704,333, and 1995 Heat Value deferral accounts of $332,392 on an interim basis in Order 3/96 dated January 30, 1996. 1995 forecast normalized volumes were used to determine the amount of the rate raters. The total amount of $10,327,400 was all owing to the customers. In an update provided to the Board during the hearing, Centra estimated that the colder than normal weather in early 1996 resulted in greater than estimated consumption and a resultant over refunding to the customers by $1,580,000 in 1996.

Another 1995 rate rider arose because revised rates were not instituted until February 1, 1996, and the Board allowed Centra to recover its total revised 1996 revenue requirement over eleven months. The estimated residual balance related to this rider was $422,000, also owing to Centra by the customer.

The July 1, 1996 rates included a rate rider to refund the 1996 PGVA. This rate rider, owing to Centra, was calculated based on normal weather for an eighteen-month period commencing July 1, 1996. Centra estimated that the balance of this account would be $9,316,000 at December 31, 1996. The amount of the rate rider approved for July 1, 1996, if continued at the same level to December 31, 1997, would generate an estimated $7,043,000 which would still leave $2,273,000 owing to Centra. Centra also estimated that the 1996 non-traditional revenue deferral account would have a balance owing to the customers of $5,000,000 as of December 31, 1996..

16.1 Board Findings

In Order 125/96, dated December 20, 1996, the Board approved interim rates for January 1, 1997 which incorporated all the above estimated deferral account balances, as well as an estimated reduction in the 1997 test year revenue requirement related primarily to forecast gas cost decreases. **The Board will require Centra to update the estimated balances, or provide actual balances for the various accounts in conjunction with a refiling of material necessitate because of Board decisions in this Order.** The Board will determine the appropriate interim treatment of these balances and resultant rate riders after reviewing this material.

17.0 Other Matters

17.1 Bill Estimating Procedures

In Order 49/95, the Board instructed Centra to review its bill estimating procedures and to file its findings by no later than the next GRA. Centra complied with this directive by filing a bill estimating study. The study determined that the applicable standard should ensure that 90% of all estimated bills be within plus or minus 10% of actual consumption. A review of the current practice for the SGS class revealed that this standard was not being met. More specifically, for the non-heating season there was a trend to overestimate low consumption (63% of estimates exceeded plus or minus 20% of actuals); and there was minimal margin for error, as percentage variances are magnified because of low consumption. Similarly, for the heating season, there was a trend to underestimate high consumptions (81% of estimates were within plus or minus 20% or actuals) and performance during heating season is close to the desired standard.

The study concluded four basic problem areas:

1. Presence of degree days during the non-heating season automatically projects a heat load when none exists.

2. Heat and base load factors are calculated automatically for every customer without ensuring that the customer has heat and base load equipment.

3. Constant recalculation of estimating factors allows historic estimated consumption volumes to infiltrate and distort consumption history, which is used to calculate factors.

4. The estimating process, by design, uses a "hands-off" approach and does not allow for any user intervention in the event of consumption changes due to addition, removal, or upgrading of gas appliances.

Centra submitted that, although the procedure had these weaknesses, it also had many merits, namely the process is well structured and mathematically sound, and has available data required to calculate estimating factors and to project consumption. Furthermore, it is a single process supporting other processes, such as budget billing and will estimate consumption for a variety of new, interrupted or established gas services.

Centra concluded that the process required the following refinements and indicated that these would be implemented in late 1996 or early 1997:

1. Eliminate degree days from consideration during non-heating season.

2. Recognize specific customer load type (heading and/or base), determine appropriate factors required and calculate these factors;

3. To the extent available, select "true" actual summer use as required base load;

4. Allow users to override the system calculated estimating factors; and

5. Handle accounts with pool heaters separately.

17.2 Board Findings

The Board appreciates Centra's endeavours in reviewing this matter and in making recommendations with respect to necessary changes. The Board concurs that the performance standard submitted by Centra to be reasonable. The Board also accepts that the refinements to the existing procedures suggested by Centra should enable these standards to be met. The Board will expect Centra to discuss the effectiveness of the recommended changes at the next GRA.

17.3 Regulatory Reform

Centra raised the possibility of pursuing regulatory reform over the next year so as to file its next GRA using a regulatory model different from that of the traditional cost of service model. The traditional cost of service regulation was identified as having three basic drawbacks: shareholder returns are determined as a function of rate base investment; setting rates based upon average embedded costs over broad customer groups is incongruous with providing customers with value based service and pricing; and there are limited incentives for efficiency.

Four possible models were identified: cost of services incentives; rate of return bands; yardstick regulation; and performance based regulation. At this point Centra did not propose any specific model for consideration, but sought to notify the Board and all interested parties that it intends to initiate a joint process of reviews, workshops, and discussions in 1997. The Board expects the interests of the consumer to be a central issue in any such reviews, workshops and discussions.

As changes occur in the natural gas industry and competition increases, the Board recognizes that the traditional cost of service, rate of return regulatory model may require change. Over the past year, the Board embarked upon a significant cost of service and rate design hearing in addition to the Generic Hearing on the Natural Gas Supply Procurement, Transportation and Storage Functions of Centra and the Guidelines to Regulate the Conduct Between Centra and its Affiliates. This, coupled with the movement from a historic to a future test year application in 1995 and the outcome of these decisions may require work for both on behalf of Centra and the Board. The Board is of the belief that the Board and Centra and any interested parties, should concentrate on these already initiated regulatory and industry reforms prior to commencing further regulatory reforms.

The Board also wishes to note that at the request of Centra, it approved in Board Order 89/94 a future test year methodology for GRAs whereby Centra could seek approval on capital expenditures being added to rate base prior to such expenditures being made. This was approved by the Board as benefiting Centra by avoiding the punitive nature of a historical test year whereby the Board could disallow inclusion into rate base of expenditures already incurred. Since Centra did not file a GRA based on a 1996 future test year, the Board has reviewed the 1996 rate base items on a historical basis, and in deciding that some expenditures do not meet the used, useful, and prudently acquired test, then disallowed their inclusion into rate base, thus leaving the shareholder with the expenditure. This regrettably is the case with the OMR project.

Although there was no application before the Board relating to Centra or Westcoast developing a billing system, the Board does wish to notify Centra that it should seek to arrive at a billing system at minimal cost to meet the needs of its customers. The Board would also encourage Centra to seek approval of this prior to launching the billing system and furthermore, to adhere to the principles set out in Board Order 110/96 should this be done in conjunction with other affiliates.

17.4 Confirmation of Board Order 92/96

In Board Order 92/96 dated August 29, 1996, the franchise agreement between the Local Government District of Reynolds and Centra for the distribution of natural gas was confirmed on an interim ex parte basis, as was the related financial feasibility test for the expansion of natural gas to Pineland Forest Nursery. In that Order, the Board indicated that at this GRA, the Board would review the construction costs. **The Board is now in a position to approve Board Order 92/96 on a final basis.**

18.0 Presenters

The Board heard from presenters on a variety of issues. Griffin Canada Inc., a steel manufacturer, supported Centra's request for three part rate reclassification and unbundling as this would permit it a competitive advantage. Furthermore, Griffin Canada Inc. also expressed concerns about several of the terms and conditions of the Interruptible Service, in particular, the applicability of penalty provisions for taking system gas due to a malfunction of equipment and the need for increased notice periods. Support for the three part rate of Centra was also expressed by Gerdau MRM Steel, a manufacturer of specialty grade steel sections. The cost of service allocations as applied for were also supported. Gerdau MRM Steel opposed the two hour notice period for interruptible customers given the difficulty of procuring alternate energy sources in such a short period, and recommended an increased notice period.

Brian Fedak appeared as a residential ratepayer concerned with Centra's increased costs and liability to reduce its operating costs. He did not view it appropriate for Centra to pass on its increased costs to its ratepayers without first attempting to reduce its own costs.

The Board notes that numerous industrial customers wrote into the Board supporting Centra's three part and cost allocation including Seagram Company, CanAmera Foods, Mohawk Oil Company Ltd., McCain Foods (Canada) Limited and Searle Greenhouses.

The Board also notes that numerous members of the HVAC Coalition wrote to the Board expressing opposition to the approval of the re-inspection fee as applied for by Centra. Many also attended those parts of the hearing relating to this issue to indicate their opposition to the re-inspection fee.

19.0 IT IS THEREFORE ORDERED THAT:

1. 1995, 1996 and 1997 net plant additions, as requested by Centra Gas Manitoba Inc. in its updated material dated November 6, 1996 BE AND IS HEREBY APPROVED subject to removal of the following:

	1995	1996	1997
Expenditures related to GM Gest	$ -	273,000	$ -
Expenditures related to OMR	-	298,200	500,000
Expenditures related to CAD	-	76,000	-
Expenditures related to the Annabella Street	317,900	-	186,200
Expenditures related to vehicles	-	-	241,000
Expenditures related to Information Services System Architecture	-	-	200,000
Expenditures related to SCADA dispatch	-	-	186,200
Expenditures related to SCADA hardware	-	-	430,000
Expenditures related to pressure monitoring	-	-	155,200
Expenditures related to other plant	-	-	576,400

2. In future GRA applications, each capital project in any of the three categories of Essential, Necessary and Justifiable be accompanied by specific details which will indicate how the defining criteria has been met by the project.

3. In future GRA applications, each capital project applied for in rate base be priorized.

4. The impact of the Board's decision on the IPL project, as set out in Order 124/96, be reflected in revised forecasted capital expenditures for 1997.

5. The request to modify the formula approach for calculating return on equity by substituting the September Consensus Forecast for the November Consumer Forecast BE AND IS HEREBY DENIED. The November Consensus Report continue to be used for purposes of calculating the allowed return on equity.

6. The request to adjust capitalization so that total capitalization will be equal to total Rate Base BE AND IS HEREBY DENIED.

7. An allowed return on equity for the 1997 test year of 10.58% BE AND IS HEREBY APPROVED.

8. An overall allowed rate of return of 9.58% for the 1997 test year BE AND IS HEREBY APPROVED.

9. The normalization process used by Centra in this application resulting in 1997 normalized sales volumes of $1,874,523 10^3m^3 for purposes of determining sales rates BE AND IS HEREBY APPROVED.

10. Centra's 1997 gas cost forecast of $150,370,900 which reflects Centra's estimate of Western Canadian Gas Supply price of $1.55/GJ at the Alberta Border BE AND IS HEREBY APPROVED unless otherwise requested by Centra.

11. The amounts included in revenue requirements related to the short-term incentive compensation program be reduced from $225,000 to the 1995 level of $160,000.

12. The increase in revenue requirements related to the addition of 18 of the 20 new positions since 1995, BE AND IS HEREBY DENIED.

13. The amount allowed in revenue requirement for shared services be reduced from $774,000 as applied for, to $486,000.

14. The bad debt component of revenue requirement of $900,000 BE AND IS HEREBY APPROVED. The final disposition of the bad debt deferral account be reviewed at the next GRA.

15. Centra's request to recover the undepreciated investment in the propane facilities over 12 years BE AND IS HEREBY APPROVED.

16. Centra provide the Board with an updated report concerning the decommissioned propane facilities by no later than August 31, 1998.

17. The generic hearing costs applied for by Centra be reduced by $200,000, and the generic hearing costs be amortized over a five year period commencing in 1997.

18. Centra continue to offer the finance program to December 31, 1997 to allow for a more orderly disposal of the finance program.

19. The request for approval of a reinspection fee of $55 BE AND IS HEREBY DENIED at this time.

20. Centra meet with representatives of the HVAC community to discuss if a re-inspection fee should be implemented, and if so, determine how, at what rate, and by what conditions a re-inspection fee should be levied in the future.

21. The revised cost of service methodology proposed by Centra for the 1997 test year BE AND IS HEREBY APPROVED subject to a change in the method of allocation of transmission costs.

22. The request for a three-part rate design for the High Volume,. Mainline and Interruptible customer claims BE AND IS HEREBY APPROVED.

23. Centra's request to increase the penalty provisions for failure to interrupt and the continuation of the two hour notice requirement for curtailments BE AND IS HEREBY APPROVED.

24. Centra file its revised Terms and Conditions of Service with the Board for approval by no later than June 30, 1997.

25. Centra file its recommendation in respect of the three outstanding matters arising from Order 107/96 (almost mainline customers, eligibility criteria, grandfathering of interruptible customers) by no later than June 30, 1997.

26. Interim ex parte Order 92/96 related to the franchise agreement with the Local Government District of Reynolds and the financial feasibility test BE AND IS HEREBY CONFIRMED.

27. 1996 base rates BE AND ARE HEREBY APPROVED on a final basis.

28. Centra file for approval a revised calculation of Rate Base, Revenue Requirement, Cost of Service, and Rates to be effective January 1, 1997, to reflect these and other adjustments made by the Board. This information should include updated information on deferral accounts and rate riders. The Board will review the revised filing and issue a separate Order approving rates to be effective January 1, 1997.

The Board is aware of recent developments in the Canadian Natural Gas markets that could affect the estimated Western Canadian supply price. If Centra is of the view that the $1.55 GJ price is no longer appropriate, the Board invites Centra to include that information in its filing of updated information responsive to this Order.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"Hollis Singh"
Acting Secretary

Certified a true copy of
Order No. 8/97 issued by
The Public Utilities Board

Acting Secretary