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MANITOBA)

Order No. 92/97

THE PUBLIC UTILITIES BOARD ACT)

December 4, 1997

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

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN
INTERIM ORDER TO APPROVE:

- A) THE ESTABLISHMENT OF NEW INTERIM BASE SALES RATES FOR THE SALE OF NATURAL GAS TO CUSTOMERS TO BE EFFECTIVE FOR ALL NATURAL GAS CONSUMED ON OR AFTER DECEMBER 1, 1997.
- B) INTERIM DISPOSITION OF THE 1997 PURCHASE GAS VARIANCE ACCOUNT AND THE RESIDUAL BALANCES OF OTHER DEFERRAL ACCOUNTS.

Executive Summary

Since November 1, 1993 the price of natural gas for Centra's customers has been determined by the market place. Centra passes the costs of gas directly through to the customers without mark-up or profit.

Sales rates for gas consumed between January and October, 1997 have included \$1.64/gigajoule (GJ) as the forecast annual average cost of Western Canadian sourced gas. For reasons explained at the November 24 and 25, 1997 public hearing, and included in this Order, the actual cost of such gas for 1997 will be, on average, \$2.55/GJ. Additionally, the revised gas cost forecast of 1998 is \$1.938/GJ which is also in excess of the \$1.64/GJ presently embedded in customer sales rates. As a result, Centra has estimated that it will pay approximately \$44.7 million for gas costs to December 31, 1997 over the amounts collected through sales rates, and will pay an additional \$17 million in 1998 for gas costs if rates do not change.

At the Public Hearing the Board heard from Intervenors who requested the staging of rate increases to review the incurred cost of gas. The Consumers Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors supported the recovery of the balance of the actual, January to October 1997 gas costs starting December 1, 1997. These intervenors also requested the adjustment rate for 1998 to be reflective of the revised gas cost forecast.

To recover the January to October, 1997 difference between forecast and actual gas costs the Board has ordered a rate adjustment effective December 1, 1997 to collect \$28.2 million which is the actual known and final amount for the first ten months of 1997. To ensure consumers pay the revised forecast of annual average gas prices for 1998, the Board has also ordered that the December 1, 1997 rate adjustment reflect the increased forecast of 1998 gas costs from \$1.64/GJ currently embedded in rates to \$1.94/GJ.

The monthly gas bill of a typical residential consumer, consuming $3.7 \times 10^3 \text{M}^3$ of gas per year, will increase by approximately \$6. Of the \$6/month increase for a typical residential consumer, approximately \$4/month is attributable to the recovery of the deficiency in collecting for 1997 gas costs and \$2/month is for increased gas costs for 1998. Therefore, at the end of 1998, the \$4/month relating to the 1997 deficiency will be removed from the sales rate components. Because Centra does not mark-up the cost of gas, the company will not profit in any way from this increase.

The difference between the forecast gas costs and the actual gas costs for November and December, 1997 will be reviewed at a subsequent public hearing scheduled to commence February 23, 1998. At that time, a further rate increase may be required to recover the difference between the actual gas costs paid by Centra and the amounts collected from customers through sales rates. Also at that future rate application public hearing, the Board will review the operating expenses and other financial information of Centra.

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1.0 Appearances

R.F. Peters	Counsel for the Public Utilities Board of Manitoba (the Board)
K.L. Kalinowsky	
J.E. Foran, Q.C.	Counsel for Centra Gas Manitoba Inc. (Centra)
B.J. Meronek, Q.C.	Counsel for the Consumers Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors (CAC/MSOS)
R. Singleton, Q.C.	Solicitor, City of Brandon

2.0 Witnesses for Centra Gas Manitoba Inc.

J.D. Brett	Vice President, Gas Supply and Regulatory Affairs and Corporate Secretary
G.W. Neufeld	Manager, Gas Forecasts and Gas Supply Administration
G.W. Meyer	Manager, Rates

3.0 Intervenors

A.E. Sharp and Associates

City of Brandon

Coalition of Eastern Natural Gas Aggregators and Sellers

Communication, Energy, and Paperworkers Union, Local 681
Consumers Association of Canada (Manitoba) Inc./Manitoba Society of Seniors

Gerry Finkle

Heating, Ventilating, and Air Conditioning Coalition

Simplot Canada Limited

Suncor Energy Inc.

TransCanada Gas Services Ltd.

4.0 Presenters

Alice Balsillie

Rolande Chernichan

Brandon General Hospital

Inez Perrin

Rural Municipality of Hanover

Rev. Trevor Rutley

Rural Municipality of Miniota

Rural Municipality of Springfield

Town of Melita

Jacques Trudeau

Village of Ste. Anne

Village of Ste. Pierre-Jolys

Winnipeg Free Press

5.0 Background

Centra purchases its gas through the use of an indexed pricing mechanism which provides for a market responsive price for natural gas.

In the 1997 Future Test Year General Rate Application (GRA), heard in late 1996, Centra initially forecast the Western Canadian supply price of gas to be \$1.42/GJ compared to the \$1.71/GJ that was then embedded in sales rates paid by consumers. Prior to the public hearing Centra updated its gas cost forecast to be \$1.55/GJ, in light of rising market prices. In Board Order 8/97 following the GRA the Board accepted the \$1.55/GJ forecast but noted that it was aware of recent developments in the Canadian natural gas marketplace that could affect the price and therefore invited Centra to include an updated forecast. Centra revised its forecast of the average 1997 price of Western Canadian surplus gas to \$1.80/GJ. In its Order 13/97 the Board approved sales rates for all billings based on gas consumed on or after January 1, 1997 that included a cost of gas component of \$1.64/GJ.

Defying forecasts, gas prices have remained at high levels and may continue to remain high through early 1998. The average cost of gas in 1997 was \$2.55/GJ. As mentioned, gas consumers were and are only paying sales rates which reflect a cost of \$1.64/GJ for the gas consumed. The difference between the \$1.64/GJ embedded in sales rates and the actual average cost of \$2.55/GJ paid for gas is captured in a deferral account, the Purchase Gas Variance Account (PGVA). The balance of the 1997 PGVA is forecast to be approximately \$44.8 million owing by the customers to Centra. In addition, if the rates remain unchanged, gas costs for 1998 would be \$17 million higher than current sales rates would recover. As a result, Centra has requested immediate sales rate adjustments to collect from customers appropriate sales rates for gas already consumed in 1997 and for gas that will be consumed in 1998.

6.0 Application

Centra has applied to the Board for an Order approving new interim sales rates effective December 1, 1997. The increased rates requested are to incorporate the following:

- a) interim recovery of the 1997 PGVA Account, the 1997 Capacity Management Revenues Account, the 1997 Heating Value Deferral Account, the residual balance of 1997 and prior deferrals,
- b) estimate of the increase in 1998 gas costs net of the capacity management revenues.

The components of the proposed rate increase are explained in further detail in the following sections of the Board Order, but consist of the following amounts to be recovered, as updated during the public hearing.

Description	Amount
1997 Purchased Gas Variance Account	\$45,387,963
1997 Capacity Management Revenues	(\$2,000,000)
1997 Heating Value Deferral	(\$139,500)
Residual Balance of 1997 and Prior Deferrals	\$675,800
1998 Capacity Management Revenues	(\$2,500,000)
1998 Gas Cost Increases	\$17,081,600
Total	\$58,505,863

Centra originally filed the application as an ex parte application. The Board, because of the significant dollars involved, directed that a public hearing should be held to fully discuss the rate increase requested.

The impact of the proposed rate increases on the average annual heating bill for certain volume consumptions are as follows:

Customer Class/Consumption	At Current Interim Rates	At Proposed Rates	% Increases
SGS 2.8 10 ³ M ³	\$637	\$721	13.1%
SGS 3.7 10 ³ M ³	\$792	\$901	13.7%
SGS 11.3 10 ³ M ³	\$2189	\$2522	15.2%
LGS Low (11.3 10 ³ M ³)	\$2400	\$2727	13.6%
LGS High (679.9 10 ³ M ³)	\$94,458	\$114,039	20.7%

SGS - Small General Service
LGS - Large General Service

Centra also indicated that rates for Mainline customers would increase from 23 - 28% and that these customers have been individually contacted to have the requested rate increases explained.

7.0 1997 Purchase Gas Variance Account

Actual gas costs for 1997 are significantly higher than the forecast costs that are embedded in sales rates due to the substantial increase in Western Canadian supply costs. Furthermore, in October and November, the price of gas remained high, defying market predictions and are forecast to remain high for December. Further reasons for the increase in the costs of gas in 1997 were a strong demand from the American industrial sector and the use of natural gas to generate electricity due to problems with coal-fired and nuclear electricity generation. Market volatility was also the result of speculation on the market regarding the effects of El Niño on North American weather patterns. While many regard El Niño as bringing warmer weather, it could cause extreme weather conditions, such as the severe winter storms that occurred in October, 1997 in the mid-Western United States.

Because of the difference between the cost of gas that is embedded in sales rates of \$1.64/GJ, and the average cost of gas paid for 1997 of \$2.55/GJ, Centra has paid on average \$0.91/GJ more for its natural gas supply than it collects in sales rates from its customers. The difference between the cost of gas embedded in sales rates and the actual cost of gas purchased by Centra is

tracked on a monthly basis in the PGVA. The accumulation in the 1997 PGVA on a monthly basis is as follows:

January	\$ 4,003,567
February	\$ 5,419,282
March	(\$797,862)
April	\$325,006
May	(\$324,243)
June	\$2,608,539
July	\$2,615,174
August	\$2,391,356
September	\$3,694,690
October	\$8,880,569
November (outlook)	\$9,789,775
December (outlook)	\$6,782,110
Total	\$45,387,963

Another contributing factor to the increase in gas costs in 1997 was the use of balancing charges by TransCanada Pipelines Ltd. (TCPL) to Local Distribution Companies such as Centra for variances from the nominated amounts. This issue will be explored in further detail in Centra's February 1998 General Rate Application.

8.0 Price Management Activities

The use of an indexed pricing mechanism such as the New York Mercantile Exchange (NYMEX) brings with it the risk of fluctuations in the commodity price in the market. Centra developed and implemented a price management program whereby Centra is to manage the gas supply prices through the use of appropriate financial instruments. The goals of the price management program include achieving a market responsive price and introducing stability to temper adverse volatility.

Centra has policy and procedure guidelines in place which subject the price management program to certain vigorous controls, checks and balances. These policies and procedures have previously been approved by the Board.

Due to price management activities in 1997, the PGVA balance is approximately \$12.3 million higher than would have been the case had price management activities not been undertaken. The effects of price management are tracked on a monthly basis and indicate that the bulk of the additional costs occurred in the months of October, November, and December, 1997.

It is the intention and request of Centra to have these matters reviewed in detail at the General Rate Application that is scheduled to commence in February, 1998. At that time Centra will file comprehensive detailed evidence associated with the price management transactions for the Board to assess the prudence of the transactions.

9.0 Other 1997 Rate Rider Components

There are other components in various deferral accounts that Centra is seeking to refund or collect on an interim basis. The 1997 capacity management revenues for 1997 are forecast at \$2 million to be credited to consumers. Capacity management revenues are derived from transactions that include the sale of excess inventory and the temporary transportation capacity for use by another party, as well as swaps and exchanges between storage facilities and other consumers of gas. The 1998 capacity management revenues are forecast at \$2.5 million, which will be credited to the gas consumers.

The 1997 heating value deferral account contains a balance of \$139,500 which is refundable to the customer from Centra. This is attributable to the variation in actual gas heating volumes from a base heat level embedded in approved sales rates charged to customers.

Other residual balances consist of the 1996 PGVA, 1996 deferred heating value, 1996 capacity management revenues, and 1997 rate change. These amounts combined are \$675,800 owing to Centra.

10.0 1998 Cost of Gas

Centra has forecast an annual average Western Canadian supply cost of gas of \$1.938/GJ for 1998, which implicitly includes price management activities. Although the NYMEX forecast for 1998 is \$2.45 U.S./mmbtu, Centra has forecast a price of \$2.29 U.S./mmbtu based on adequacy of storage, new export capacity from Canada, milder weather, and third party forecasts.

Based on this forecast and using 1997 test year approved volumes, the total gas cost for 1998 are forecast at \$171,774,380, an increase of \$17.1 million over the amount that will be recovered by currently approved sales rates.

11.0 Rate Impact Scenarios

Centra filed two alternatives with the Board as to how the gas cost increases could be recovered in customer rates. Centra's preferred approach is to implement a rate increase on December 1, 1997 and have it run for 13 months, recognizing that the 1998 gas cost increase and the 1997 deferrals are disposed of on an interim basis and would be reviewed as to prudence at the future GRA to be held in February, 1998.

Centra's proposed rate increase would result in an additional \$59 million being recovered in sales rates charged to customers over 13 months. The requested rate increases result in increases in annual heating costs in the rate of balance, 13.1 to 15.2% increases for SGS customers, and 13.6 to 20.7% increases for LGS customers.

Centra also filed an alternative approach that recovered only the 1997 PGVA balance and deferred recovery of the 1998 cost of gas increases. This would result in increases of 8.9% to 10.4% for SGS customers and 9.1% to 13.9% for LGS customers.

Centra indicated that there were various other methods by which the increased costs could be included in rates. According to Centra, failure to increase the rates in December would only exacerbate the extent of the rate increase required later. Centra urged the Board to consider the various options in light of the customers' ability to handle a particular rate increase, the concept of intergenerational equity, and Centra's ability to finance a large deferral account over an extended period of time.

12.0 Intervenors' Positions

CAC/MSOS acknowledged that the rates had to be increased so as to include both the \$44.8 million owing by the customer to Centra and also the \$17 million for 1998 additional gas costs. CAC/MSOS differed with Centra only with respect to the timing of the rate increases. CAC/MSOS indicated that the sheer magnitude of the increase requested was too large to implement at once and proposed that the Board implement all components of the rate increases

requested with the exception of the November and December balances in the PGVA since these are not finalized at this time.

Furthermore, the PGVA included the \$12.3 million due to price management activities which are subject to a prudency review in the upcoming General Rate Application. It was further suggested that the rate increases could be spread out over a longer period so as to assist consumers in their budgeting. CAC/MSOS proposed three rate increases: on December 1, 1997 for the disposition of the January to October 1997 PGVA; on January 1, 1998 for the 1998 cost of gas; and in the spring of 1998 following the GRA disposing of the November and December 1997 PGVA balances.

Counsel for the City of Brandon noted that the increase was a pass through of increased gas costs based on North American markets which was beyond the control of Centra. However, the issue was one of credibility, which includes the difficulty faced by the Board and Centra in communicating this to the public. The Board was urged to come to a middle ground and minimize the rate increase if possible.

13.0 Presenters

The many presenters were concerned private citizens, municipalities or towns, and institutions. All presenters were opposed to the rate increase and strongly urged the Board to deny the extent of the increase, arguing that many individuals and businesses or institutions are on fixed budgets and therefore could not afford the increase.

14.0 Board Findings

The Board acknowledges that the cost of gas is passed through by Centra directly to the customer without any mark-up or profit. Furthermore, the Board notes that the cost of gas supplied by Centra to its customers is indexed to the North American market price of gas. Since deregulation and the opening up of the gas markets to competition, the commodity price of gas has fluctuated and will continue to do so. This hearing is the result of several net upward fluctuations in the commodity gas costs, and is not related to any changes in operating and other costs that are normally the subject of review by the Board at General Rate Applications.

The Board does recognize that the rate increases requested are significant and has considered the various possible methods of implementation of each of the

component parts. In making its decision, the Board notes that it must balance the important considerations of having consumers pay the actual cost of gas that is consumed and the ability of consumers to absorb significant rate increases, as well as the ability of Centra to finance the unrecovered costs.

The Board notes that the PGVA records the difference between the actual cost of gas and the cost of gas embedded in sales rates. Therefore, depending on how the market has performed against forecast, the PGVA will have a balance owing either from Centra to the consumer, or to Centra from the consumer. In 1997 the approximate amount of \$44.7 million owing to Centra from its customers is inordinately large due to the higher than forecast commodity cost of gas in North America and the Company's price management activities. This account must be cleared periodically on a historical basis.

In the past the Board has disposed of the balances in the PGVA only when the balances are finalized. The Board notes that in the 1997 PGVA and in the other 1997 and prior deferral accounts, the amounts for the months of November and December are not as of yet finalized. However, the amount in the PGVA for January to October of \$28,281,108 is finalized. The Board wishes as much as possible to adhere to the principle that only known and measurable actual amounts in deferral accounts be disposed of at the time of a decision. By making the decision to increase rates based only on the actual amounts known in the PGVA and other deferral accounts, consumers will be required to pay for the actual gas that was consumed in the first ten months of 1997. Therefore the Board will approve a rate increase to be effective December 1, 1997, by way of a rate rider to recover the balances in the PGVA and other 1997 and prior deferral accounts at October 31, 1997 over the 13 month period December 1, 1997 to December 31, 1998.

In December, 1997, the cost of gas is forecast to be \$3.45/GJ, which is far in excess of the \$1.64 embedded in rates. Centra has forecast the 1998 gas supply costs to be \$1.94/GJ whereas the cost of gas currently embedded in rates is \$1.64/GJ. The principle that consumers should pay sales rates which recover the actual cost of the gas that is consumed is a sound principle for rate making. Price transparency is important not only for existing consumers to determine their consumption patterns, but also for those who are seeking to convert to natural gas or seeking competitive options. Accordingly, the Board will approve a sales rates to be effective December, 1997 that includes a cost of gas component of \$1.94/GJ.

The Board will consider disposing the final amounts remaining in the PGVA for November and December 1997 as well as the November and December balances in the other deferral accounts at the 1998 General Rate Application to be held in February, 1998. At that time the Board will also examine the specific transactions of the price management program and determine the prudence of the transactions.

With the 13 month recovery of the \$28.2 million due to the increased gas cost and other deferral accounts for the first ten months of the 1997 and the \$17.1 million for 1998 gas cost increases, the Board is approving rate increases of approximately \$6/month on an annual average for a typical residential consumer using $3.7 \times 10^3 \text{m}^3$. For SGS customers, the rate increases will be 8.6 - 10.0% and for LGS customers, between 8.8% and 13.4%.

The Board will therefore direct Centra to file, for approval, interim rates for all billings based on gas consumed on or after December 1, 1997 that reflects the above decisions.

15.0 IT IS THEREFORE ORDERED THAT:

1. Centra file, for Board approval, interim sales rates for all billings based on gas consumed on and after December 1, 1997 to reflect the following:
 - a) recovery of the 1997 PGVA balance and other 1997 and prior deferral accounts balances as of October 31, 1997 over a 13 month period ending December 31, 1998;
 - b) a gas cost component for Western Canadian Supply of 1.938/GJ; and
 - c) an increase in the Weighted Average Cost of Gas to reflect a cost of \$1.938/GJ Western Canadian Supply Gas.
2. Centra file revised rate impact tables which reflect the impact of the revised rate increases on the average annual heating bill for various customers in SGS and LGS customer classes.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"

Chairman

"H. M. SINGH"

Acting Secretary

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H. M. Singh
Acting Secretary