M A N I T O B A	**)**	**Order No. 103/98**
	)	**August 7, 1998**
THE PUBLIC UTILITIES BOARD ACT	**)**	

BEFORE: G. D. Forrest, Chair
D. .L. Barrett-Hrominchuk, Member

CENTRA GAS MANITOBA INC.
AN ORDER APPROVING RATES PURSUANT TO BOARD ORDER 79/98 AND REVISED 1998 GAS COSTS

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Executive Summary

Background

On June 19, 1998 The Public Utilities Board (“ the Board) issued Order 79/98 which contained the Board’s decisions on issues that arose in Centra Gas Manitoba Inc.’s (“Centra”) 1998 General Rate Application. Centra was directed to refile revised 1998 Rate Base, Revenue Requirement, gas costs, deferral account balances and rates to be implemented August 1, 1998.

This hearing dealt with the revisions resulting from Order 79/98 and changes in the cost of gas as well as rates that flow from these changes

Rate Impacts

In Order No. 79/98, the Board disallowed approximately $27.25 million in losses related to Price Management activities. The rate increase requested in this application is predominantly the result of an increase in the 1998 cost of gas. No rate increase is being sought to recover any of the disallowed price management losses.

As a result of the decisions set out in this Order, a typical residential customer will experience an increase in their annual heating bill in the range of 4.1% (from approximately $652 to $678 per annum) depending on gas volumes consumed. Because of the timing of this rate change, the rates must recover twelve months of 1998 revenue requirement over the remaining five months of 1998. Accordingly, a rate rider must be added to the base rate for the period August 1, 1998 to December 31, 1998. The percentage increase in rates for a typical residential customer from existing rates for this five month period will be 13.9% because twelve months of revenue must be recovered over five months.

Application

On July 3 and 10, 1998, Centra filed the requested material together with various rate options for consideration by the Board. Two of the significant matters in this Application were:

1. Centra did <u>not</u> request recovery of any of $27.25 million of price management results which were disallowed in Order 79/98;

2. Centra filed a revised 1998 cost of gas which indicates that the average 1998 commodity cost of natural gas from Western Canadian Supply Sources has risen from $1.94 per gigajoule (GJ) to 2.20GJ .

Centra also advised the Board that based on current forecasts, the cost of gas is expected to increase further in 1999.

Cost of Gas

Consumers of natural gas, since December 1, 1997, have paid $1.94 GJ in the commodity portion of their gas rates. The 1998 average gas cost paid by Centra on behalf of customers is now forecast to be $2.20 GJ. As a result, consumers have not payed the full cost of the gas they have consumed in 1998. Centra has paid the full cost and is entitled to recover the additional amount over the period of August 1 to December 31, 1998.

To allow Centra to recover the new forecast cost of gas for the balance of 1998, rates will be increased on August 1, 1998 in an effort to match the commodity rate paid by consumers with the commodity rate paid by Centra when purchasing gas for its consumers. For all gas consumed on and after August 1, 1998, the rates charged to consumers will reflect the increase in the 1998 average cost of gas from $1.94 GJ to $2.20GJ.

As stated in previous orders, Centra makes no profit on the commodity cost of gas above what it actually pays for such natural gas.

Adjustments to Centra's Application

In this application, the Board has adjusted Centra's application by:

a) Removing approximately $1.1 million of marketing salaries and benefits from 1998 revenue requirement;

b) Reducing 1998 forecast gas costs by approximately $3,860,000;

c) Implementing a deferral of the SGS rate impact related to certain cost of service issues;

d) Adjusting the allowed carrying costs related to deferral accounts; and

e) Deferring allowed 1998 Price Management results.

The Board believes that the decisions set out in this Order represent a reasonable and fair balance between maintaining the financial integrity of Centra and being sensitive to the financial burden placed on consumers.

1.0 Appearances

R. F. Peters	Counsel for the Public Utilities Board of Manitoba ("the Board")
J. E. Foran, Q.C. M. T. O'Neill	Counsel for Centra Gas Manitoba Inc.("Centra")
B. J. Meronek, Q.C.	Counsel for the Consumers' Association of Canada (Manitoba) and the Manitoba Society of Seniors ("CAC/MSOS")
M. Samual J. Watson	Representing TransCanada Gas Services ("TCGS")
G. Wood	Representing Winnipeg School Division No. 1 ("the Division")and the Cities of Brandon, Portage La Prairie, Steinbach, and Dauphin, Towns of Selkirk, Morden and Winkler ("Cities & Towns")
D. Brown	Representing the Coalition of Eastern Natural Gas Aggregators ("CENGAS"), Direct Energy Marketing Ltd., and Alliance Gas Management Inc.

2.0 Witnesses for Centra

J. D. Brett	Vice-President, Regulatory and Corporate Affairs
H. M. Kast	Vice-President, Finance and Administration
G. B. Whitehill	Senior Manager, Regulatory and Business Advisory Services
H. P. Stephens	Senior Manager, Gas Trading, Storage and Transportation
G.W. Meyer	Manager, Rates
G. W. Neufeld	Manager, Gas Forecasts and Gas Supply Administration

3.0 Witness for TCGS

F. Kelton

4.0 Intervenors

Alliance Gas Management Inc.	D. Brown
Consumers' Association of Canada (Manitoba) Inc. /Manitoba Society of Seniors	B.J. Meronek, Q.C
Direct Energy Marketing Ltd.	D. Brown
Coalition of Eastern Natural Gas Aggregators ("CENGAS")	D. Brown
Communications Energy & Paper Workers Union	G. Wilcox
ECNG Ltd.	P. F. Scully
Heating Ventilating & Air Conditioning Coalition ("HVAC")	D. Foreman
Simplot Canada Limited	M. Hopkins
TransCanada Gas Services ("TCGS")	M. Samual, J. Watson
TransCanada Pipelines Ltd.	R. W. Graw
Winnipeg School Division No. 1	G. Wood, S. Nixon
Cities of Brandon, Portage La Prairie, Steinbach, and Dauphin, Towns of Selkirk, Morden and Winkler,	G. Wood
Mr. D. Yauniskis	

5.0 Presentors

Mr. A. Cerilli	Manitoba Federation of Union Retirees
Ms. H. Osiowy	Citizen
Mr. B. Gavrailoff	Bituminex Limited
Mr. G. E. Simpson	Borland Construction
Mr. J. Kenny	Apartment Investors Association of Manitoba Incorporated
Mr. Permut	Condominium Corporation No. 30.
Mr. Steek	River Heights and Wolsley Ward
Ms. S. Bruce	People Empowering Themselves Against the System
Ms. Komadowski	Citizen
Ms. Standing	Citizen
Mr. Kaufmann	Citizen
Ms. Hogan	Citizen
Ms. Poizer	Citizen
Mr. W. Chernetsky	Citizen
Ms C. May	Citizen
Ms A. A. Wood	Citizen
Ms K. Ross	Citizen
Ms S. Pollock	Citizen
Mr. K. Thomas	Manitoba Association of School Trustees
Ms J. Tooth	Citizen
L. Kinsman	Citizen
Mr. J. Puffalt	Town of Dauphin
Mr. D. Carriere	Citizen

Mrs. E. John	Citizen
Mr. B. Haeberle	Citizen
Mrs. E. Aldcroft	Citizen
Mr. A. Silva	The City of Winnipeg
Mrs. B. Ross	Citizen
Ms R. Zimberg	Manitoba Association of Urban Municipalities
Ms B. Edgeworth	Rural Municipality of Miniota
Mr. H. & Ms D. Gauthier	Citizen
Ms K. & Ms K. Bauernhuber	Citizen
P. Davis	Citizen
A. McLean	Citizen
Ms E. C. F. Ross	Citizen
Mr. Nicholson	Town of Morris
Mr. Morantz	Professional Property Managers Association
Mr. L. J. Herbach	Citizen
F. A. Richardson	Citizen
A. Deger	Bison Rock & Asphalt Products Ltd. And Riverside Gravel (1985) Inc.
Mr. M. & Ms. L. Peladeau	Citizen

6.0 Background

The Public Utilities Board of Manitoba ("the Board") issued Order 79/98, dated June 19, 1998 which set out the Board decisions in respect of Centra Gas Manitoba Inc.'s ("Centra") general rate application ("GRA") for approval of sales rates to become effective on January 1, 1998, and certain other related matters. Order 79/98 directed Centra to refile all schedules and resulting rates to reflect the Board decisions related to the GRA. Centra complied with these directives and filed the revised information with the Board on July 3 and July 10, 1998. The material included six alternatives for recovering the revised 1998 revenue requirement as well as the balances in the various deferral accounts.

A public hearing was held in Winnipeg, Manitoba on July 27 to July 29 to hear evidence relative to the revised filings and increased gas costs.

The Board has commented on all aspects of Centra's 1998 GRA filing in Order 78/98. The Board will restrict comments in this Order to the revised 1998 Rate Base, Revenue Requirements, revised gas costs, cost allocation and rate design matters as well as deferral accounts and rate riders to arrive at 1998 rates to be effective August 1, 1998.

7.0 Centra's Application

Pursuant to Order 79/98, Centra revised all relevant schedules related to Rate Base, Revenue Requirement, revised gas costs and resultant base rates and various options for rates, including rate riders to dispose of deferral account balances. The specific changes made to the revised filings are summarized below.

7.1 Rate Base

The revisions made by Centra to the 1998 Rate Base as a result of Order 79/98 included the following:

1. A reduction in estimated plant expenditures for Rural Expansion Phase 2 of $25,858,500 and related Contributions in Aid of Construction of $14,340,200.

2. Estimated expenditures for the Hanover regulator station ($169,000) and Customer Information System ("CIS") hardware ($684,400) were placed in Construction Work in Progress ("CWIP").

3. An increase in Accumulated Depreciation of $81,900 related to various adjustments.

4. Removal of the costs of Disallowed Assets related to Rural Expansion Phase I ($1,804,000), OMR ($152,200) and CAD ($76,000).

5. An increase in Working Capital Allowance of $2,101,700 related to an increase in cost of gas in storage, reduction in material inventory costs for Rural Expansion Phase II, and overall impact on cash requirements as a result of other adjustments.

These adjustments decrease Rate Base by $5,839,800, resulting in a 1998 test year Rate Base of $280,736,200.

7.2 1998 Revenue Requirement

The revisions made by Centra to the 1998 Revenue Requirement as a result of Order 79/98 included the following:

1. Remove $1,116,4000 of capitalized marketing and development salaries and benefits related to Rural Expansion from Rate Base and expense these as operating costs for 1998.

2. Decrease various operating and maintenance expenses for services from Engage Energy Inc., rural expansion and ISM outsourcing costs totaling $309,000, leaving a net increase in operating and maintenance costs of $815,500.

3. Decrease depreciation expense by $133,600 related to various disallowed assets and items placed into CWIP.

4. Decrease corporate capital tax by $166,100 and increase income taxes by $157,700 as a result of all adjustments.

5. A reduction in overall return of $1,254,700, as a result of changes to Rate Base and continued use of previously approved Capitalization treatment.

6. An increase in cost of gas of $26,321,100 to reflect an increase in 1998 cost of gas from $1.94/GJ to $2.27/GJ for Western Canadian Supply for 1998, offset by a reduction in Rural Expansion Phase II volumes. Centra's original application contained an amount of $28,464,00 in gas costs related to 1998 price management which had also been removed.

7. A decrease of $39,400 resulting from a delay in the implementation of the re-inspection fee until January 1, 1999.

8. A reduction in revenues of $976,000 related to Rural Expansion Phase II volumes.

As a result of these changes, the revised 1998 revenue requirement is reduced by $2,055,800 to $310,767,400.

8.0 Cost of Gas

8.1 TransCanada Gas Services ("TCGS") Supply Contract

Centra renegotiated certain terms and conditions and the pricing mechanism with TCGS for the gas year commencing November 1, 1998. The material changes to the TCGS supply arrangements include:

1. The existing term factor is decreased from 2.65% to 2.0% for all TCGS supply volumes. Centra is committed to a 100% take or pay provision for all winter volumes, from November 1, to March 31.

2. Centra will no longer be entitled to take 105% of the Daily Contract Quantity ("DCQ").

3. As of November 1, 1998 the price which Centra will pay for TCGS gas supply will consist of the weighted average calculated as follows:

   - 70% of the volumes will be priced based on the Canadian Gas Price Reporter ("CGPR") monthly index for the AECO C hub plus the Nova published Toll, currently at $0.128 per GJ, from AECO C to Empress.

   - The remaining 30% of the volumes will be priced based on CGPR Empress monthly index.

Centra submitted that the renegotiated arrangements represent the best arrangements possible at this time and were in substantial agreement with the Board's directives stated in Order 79/98. Centra estimated that the reduction in the term factor represented an annul gas cost saving of approximately $500,000 less than what it would have been had the 2.65% term factor remained in place. The "trade off" for the reduction in the term factor was Centra's relinquishing some of the flexibility contained in the existing agreement, namely the 100% take or pay obligation for the winter months and the elimination of the right to take up to 105% of the DCQ Centra contended that the two most important flexibility factors, the annual 85% load factor take rate and the operating demand volume mechanisms to accommodate direct purchase arrangements, had been retained. Centra estimated that in the worst case scenario, the 100% take or pay provision might result in an additional annual payment of $ 42,000. Centra further suggested that the potential for decreased revenues related to its capacity management program was small, and would be more than offset by decreased costs related to the term factor adjustment.

TCGS's producer support for these arrangements was received on July 28, 1998. A condition precedent to this contract was for the Board to approve the gas cost consequences flowing from the renegotiated arrangements.

8.2 1998 Revised Gas Costs

Centra's revised average cost for Western Canadian supply for 1998 is $2.27/GJ. Centra estimated this average cost based on six months of actual costs, with the reaming six month costs based on forward price curves at June 24, 1998. The price was estimated by using the existing pricing arrangements (85% NYMEX based and 15% Empress CGPR) to October 31, 1998 and the renegotiated pricing arrangements for November and December. Gas commodity costs, other than Western Canadian supply, continued to be estimated using existing NYMEX index pricing. Centra submitted that the use of forward price curves was the best estimate of future costs, given that this method incorporated all of the various industry pricing factors.

The revised 1998 gas costs also include increased demand charges on the TCPL system, as approved by the National Energy Board effective April 1, 1998. Centra estimated this would increased gas costs by $835,000. Additionally, Centra revised its U.S. exchange rate to reflect actual amounts to May, and proposed to use an average rate of 1.47 from June to December. Centra estimated that the revised exchange rates would account for approximately $3,240,000 of the gas cost increase.

Centra's revised gas costs for 1998, exclusive of any price management impacts, and allowing for reduced purchase requirements related to rural expansion Phase II volumes, were estimated to be $195,809,200. During the hearing, Centra recalculated gas costs by using the July 22, 1998 forward price curves. This calculation resulted in a decrease in 1998 estimated costs by approximately $3,860,000 which results in an average 1998 Western Canadian gas cost of approximately $2.20 per GJ.

Centra also advised the Board and participants at the hearing that, based on current forecasts, the cost of gas for 1999 is expected to increase to the range of $2.70 GJ.

9.0 Cost Allocation

Centra's refiled cost allocation schedules reflect all Board directives in Order 79/98. Those directives necessitated changes in both Rate Base and Revenue Requirement. As a consequence, many of the factors used in the cost allocation study changed. Changes in total and relative class sales volumes and number of customers further impacted capacity factors flowing from changes in peak day and demand requirements. While many allocators changed, the methodology used for the allocation of costs to the various customer classes remained unchanged from that used in the previous GRA filings.

Centra did not adjust the allocation of costs for the SGS customer class to reflect the Board's decision related to the treatment of transmission related costs for rural expansion. The Board allowed the accounting treatment which considered all customer contributions in aid of construction as being transmission related. This had the effect of decreasing costs for all customer classes except for the SGS class. The Board instructed that the SGS rate be designed so as not to impose these costs on the SGS Class, estimated at the GRA to be $639,000. This amount was to be placed in a deferral account to be recovered in a fashion to be determined by the Board at a later date, once the cost allocation issue was resolved.

Centra stated that the amount, revised to $675,000 during the hearing, would result in a decrease of approximately $3.60 (0.4%) in annual costs to the typical SGS customer. Centra further stated that the calculation required some time to perform, and in the interests of time, Centra had filed the revised information excluding this calculation. Centra agreed that the necessary calculation would be incorporated into the SGS rate prior to implementation of the new rate schedules.

10.0 Deferral Accounts

The existing billed rates, which became effective December 1, 1997, include a rate rider intended to recover the balance of the 1997 and prior deferral accounts as of October 31, 1997 over a 13 month period ending December 31, 1998. Centra calculated the December 31, 1997 balance, excluding the disallowance of 1997 price management impacts, to be $22,678,000. This was the net amount including incremental rate rider revenues for December of 1997, and was the amount approved by the Board pursuant to Order 79/98. In addition to the 1997 deferral account balances, Centra estimated the 1998 Capacity Management deferral account balance would be $3,000,000, and that the allocated portion of the allowed 1998 price management impacts would be $11,155,400.

Centra allocated the disallowed Price Management losses of $27,250,000 as being $9,941,000 to 1997 and $17,309,000 to 1998. The disallowed portion related to the Basis hedging was allocated to each year in proportion to the Basis losses recorded for each month from November, 1997 to October 1998. The remainder of the disallowed losses was allocated to each year in proportion to the balance of price management impacts for all of the months from January 1997 to December 1998.

The following is a summary of the deferral account balances, including 1998 carrying costs at short-term rates and including all tax implications.

Component	**Amount**
1996 Gas Cost Residual	$ 1,061,627
1997 PGVA	31,096,354
1997 & 1998 Capacity Management	(5,399,441)
1997 Rate Change Delay	(310,514)
1997 Heating Value	(223,362)
Sub – Total	26,224,664
1998 Price Management	11,155,366
Total	$37,380,030

Centra pointed out that the cost of financing the significant deferral account balances exceeds their cost of short-term debt, and as a result, imposes an unfair financial consequence on Centra, since Centra is allowed to record carrying costs only at their short-term debt rate.

11.0 Rate Options

Centra submitted six rate options for the Board's consideration. Each option includes recovery of the 1998 revenue requirement, the refund of the estimated 1998 Capacity Management revenues of $3,000,000 and the recovery of the December 31, 1997 deferral account balances over the remaining five months of 1998.

The increase in base rates under each option is approximately 6% for the SGS customers and approximately 4.9 to 7.3% for the LGS customers. The rate options presented by Centra are:

Option 1
No recovery of the approved 1998 price management impact in 1998.

Option 2
Recovery of 1998 allowed Price Management impact of $11,155,366 over 24 months from January 1,1998 to December 31, 1999.

Option 3
Recovery of the 1998 allowed price management impact over 12 months commencing January 1, 1998.

Options 4, 5 and 6 are options 1, 2, and 3 respectively, but with a one time payment to recover the impact of the rate riders from January 1 to July 31, 1998 plus a rate increase to recover the 1998 cost of service from August 1, 1998 to December 31, 1998.

Centra's preferred option is option 3. In selecting this option, Centra considered the magnitude of the rate impact, rate stability, intergenerational issues and the ability and earnings impact of financing the deferral accounts.

The following table summarizes the estimated rate impact for the SGS and the LGS customer classes for each rate option presented by Centra.

	SGS		LGS			
Annual volumes (m3)						
Rate Option	**INCREASE %**	**One Time Payment**	**Increase %**	**One Time Payment**	**INCREASE %**	**One Time Payment**
Base Rates Increase	6.0%	N/A	4.9%	N/A	7.3%	N/A
Billed Rate Options Increase						
Option 1	19.4 %	N/A	16.4	N/A	24.0	N/A
Option 2	23.1%	N/A	20.2	N/A	29.6	N/A
Option 3	26.9%	N/A	24.0	N/A	35.1	N/A
Option 4	7.6%	42.45	6.6	130.52	9.6	7,937.26
Option 5	9.1%	50.17	8.1	154.43	11.8	9,265.87
Option 6	10.6%	57.88	9.6	178.24	14.0	10,694.48

The billed rate increases under option 1, 2 and 3 are significant because 12 months of revenue are proposed to be recovered over 5 months.

The range of rate impacts for the High Volume Firm, Mainline and Interruptible Customer classes, depending on load factor (up to 50%) and annual consumption is summarized below, on an as billed to as billed basis, and is not reflective of increase annual energy costs.

Option	**High Volume Firm**	**Mainline**	**Interruptible**
Base Rate	0.1 - 4.4%	10.2 -11.1%	17.0 -18.4%
Option 1	0.5 - 4.6	11.1 - 12.8	14.3 -21.3
Option 2	4.7 - 10.1	16.5 - 19.3	21.7 - 29.2
Option 3	9.0 - 15.7	21.7 - 25.7	29.1 - 37.0
Option 4	-1.3 - 2.1	4.9 - 5.7	10.0 - 17.1
Option 5	0.4 - 4.4	7.1 - 8.2	13.3 - 20.4
Option 6	2.1 - 6.6	9.4 - 10.8	16.6 - 23.7

12.0 Intervenors' Positions

12.1 CAC/MSOS

CAC/MSOS submitted that it was fundamental that the Board make the right decisions related to the increase in rates. In reaching its decision, the Board had to deal with an issue of fairness in the rates sought by Centra. CAC/MSOS stated that subject to some adjustments, Centra was entitled to recover the cost of providing the gas service to the consumers of Manitoba and that what Centra has requested has been approved by the Board. What needed to be addressed was the time over which the amount owed to Centra should be recovered.

In assessing the timing of the recovery of the increase in the cost of gas, CAC/MSOS urged the Board to consider both the financial condition of Centra as well as the financial impact on consumers. CAC/MSOS stated that the Board should not be limited to the options presented by Centra and could make any decision on how the monies are recovered in rates. CAC/MSOS argued that Centra was better suited to deal with the financial implications of a longer recovery period of the amounts requested than consumers are. CAC/MSOS argued that Centra would be able to manage the situation by raising additional equity or bank financing in the interim. Residential consumers on the other hand have a limited ability to absorb, finance or budget for the significant increases proposed by Centra.

CAC/MSOS opposed any option which included a lump sum payment and preferred option 1, subject to some adjustments. Option 1 would recover 1997 gas costs and 1997 allowed Price Management losses over a five month period from August 1, 1998 through December 31, 1998. CAC/MSOS argued that option 1 would promote rate stability in rates and would provide a greater linkage between 1998 and 1999 rates. Under Centra's preferred rate scenario, option 3, there would be a substantial increase in rates for 1998 followed by potentially a large decline in rates in the following year.

CAC/MSOS stated that Centra was entitled to recover the 1998 allowed price management results of approximately $11.15 million in 1999 when the balance of the 1998 PGVA is finalized. CAC/MSOS also requested that the Board deal with the issue of the PGVA, given the volatility of gas rates and future uncertainty, as it may lead to significant increases or decreases in the near future.

CAC/MSOS argued that adjustments for the following items should be in the determination of rates:

Gas costs should be reduced by $3.8 million related to the current update presented at the hearing as to the future-pricing curve for the cost of gas as it represented the most current information on the 1998 cost of gas.

$1.16 million for marketing and development salaries. CAC/MSOS argued that the Board had been clear in its decision that the expenses were considered excessive and that the expenditures should be disallowed into rate base. CAC/MSOS argued that the expenditures should be removed from rate base for rural expansion phase II until such time that Centra justifies the expenditures on a feasibility basis for the proposed projects.

$0.645 million related the SGS class, an amount the Board directed the Company to set aside in a separate account until the issue of the cost allocation of customer contributions for rural expansion could be dealt with in a public hearing.

CAC/MSOS stated that it was not able to take a position on the approval of the TCGS contract, as there was not enough information placed before the Board. CAC/MSOS cited that it was difficult to obtain information due the commercially sensitive and confidential information surrounding the agreement.

CAC/MSOS stated that the Board should continue to approve rates that result from the new TCGS contract Centra entered into, but should not be asked to provide approval of the contract itself. CAC/MSOS argued that Centra could not place into the agreement with TCGS a condition that the Board must approve the agreement, making the Board assume jurisdiction. The Board is able to make decisions on rates that flow from an analysis of the contract placed before it without specifically approving the contract.

12.2 TCGS

TCGS supported the renegotiated gas contact and requested that the Board approve the gas cost consequences of the contract between itself and Centra.

TCGS stated that the contract it had entered into with Centra resulted in a win/win situation for all parties and that Centra had negotiated a reasonable gas supply contract, which provided the flexibility that it needed. The consumers of Manitoba also benefit from the contract, as they will receive a market-based price for gas that is comparable to that received by other ratepayers and utilities.

TCGS submitted that there were five flexibility factors retained by Centra, which were valued at more than the existing term factor of 2%, some $0.05/GJ at a supply price of $2.50/GJ. The flexibility factors include Centra's 85% annual take load factor, Nova stranded costs to supply at the 85% load factor, the term of the contract being in excess of one year, pricing 70% of the supply at AECO C rather than at Empress, and most importantly the accommodation of Manitoba consumers wishing to leave system supply for alternate supplies without causing undue burden on remaining system customers.

TCGS stated that Centra retained the basic flexibility the Board required to foster a competitive gas market in Manitoba. TCGS noted that Centra had indicated that it had attempted to replicate the flexibility offered on purchasing gas on the open market, but had discovered that the flexibility could not be obtained for the price offered from TCGS, making it not an economic alternative.

12.3 Mr. Yauniskis

Mr. Yauniskis agreed with CAC/MSOS that option 1 should be selected for rate setting purposes, so as to allow for consumers to save between now and the end of the year to prepare for a future increase. Mr. Yauniskis stated that the increase proposed by Centra would amount to rate shock and selecting option 1 would allow consumers to recover from it.

Mr. Yauniskis argued that the Centra claim of being in a financial crisis can be managed and that its parent company is profitable and is in a better position to provide an infusion of cash into Centra on an interim basis. Mr.Yauniskis stated that customers of Centra include seniors and poor people, who could not handle significant increases in gas rates right away.

Mr. Yauniskis further stated, from a consumers perspective, he did not have a problem with the term factor, in the TCGS contract, in that Centra is willing to pay a premium of 2% for an assured gas supply which is a benefit to the consumers of Manitoba.

Mr. Yauniskis noted that Centra has not taken price protection against the fall of the Canadian dollar and should take measures to protect against the fall in the dollar, as it adversly impacts the cost of gas, since some components are based in US dollars.

12.4 Winnipeg School Division No. 1 ("the Division")

Counsel for the Division presented final argument on behalf of the Division as well as the Cities and Towns, who's position is stated in 12.5 of this Order. The Cities and Towns and the Division recognize that an increase is called for and argued that Centra's option 3 should be rejected in favor of option 1 with the adjustments proposed by CAC/MSOS. The Division and the Cities and Towns noted that option 1 would represent a moderate increase in 1998 followed by potentially another moderate increase in 1999, or no increase at all.

The Division and Cities and Towns addressed Centra's claim of cash flow problems if option 3 was not accepted by the Board. The Division and the Cities and Towns noted the financial demands placed on Centra but stated that a witness for Centra had stated that there were options for cash flow available to Centra.

The Division and the Cities and Towns expressed concern that the public perception of the integrity of the Public hearing process is being challenged by the belief that this hearing was to undo the results of the decisions made by the Board in Order 79/98.

The Division and the Cities and Towns as a first concern , as expressed in Mr. Santos submission on behalf of Division that as a large gas consumer should not subject to an escalation in the cost of gas as a result of imprudent actions taken by the Company and that "the Board should be vigilant in enforcing the conclusions reached in PUB Order 79/98."

The Division and the Cities and Towns urged the Board to deal with the Publics perception and clearly state the circumstances which the PUB is now faced so as to assist the media and the Publics understanding.

The Division stated that it represents the largest School Division in the City of Winnipeg and maintains 78 schools and 11 other buildings with natural gas and has an annual gas budget of over $2.74 million. Mr. Santos as Chairman of the Division expressed his concern with the large increase in rates requested by Centra will have on the budget of the Division. Mr. Santos noted that the Division budget is set for the year commencing July 1, 1998 to June 30, 1999. The budget is comprised primarily of salaries , 85% for teachers and support staff. The increase requested by Centra would lead to a budget deficit and may lead to a reduction in both teaching and non-teaching positions to offset any potential budget shortfall, which would result from the increase. For each increase in gas costs of $55,000 one teaching position would be cut, placing an undue hardship on students and teachers. Mr. Santos requested that if an increase is approved, the Board should allow a period before the phase in of the increase to allow for the effective changes to the budget.

12.5 Cities of Brandon, Portage La Prairie, Steinbach, and Dauphin, Towns of Selkirk, Morden and Winkler ("Cities & Towns")

The Cities and Towns and the Division expressed the same argument at the hearing as presented by the Division.

Mr. G. Laubenstien as the City Manager of the City of Brandon, expressed the concerns of the Cities and Towns, in his written submission. Mr. Laubenstien noted that the budgeting process for the municipalities, upon which property tax levies are determined, is set in December for the following year. A rate increase requested for August would cause a budget shortfall for the Cities and Towns, as an increase in the cost of gas service had not been taken into account in the budgeting process. Any deficits that are incurred would automatically be recovered in the next calendar years budget. Mr. Laubenstien noted that it is important that the rate for natural gas is known by the end of December for the budgeting purposes for the following year.

The Cities and Towns requested that if the Board approves any increase, there should be a delay in implementation so that adjustments can be made to the current budget.

12.6 Coalition of Eastern Natural Gas Aggregators ("CENGAS")

Cengas argued that any attempt of Centra to recover any of the disallowed price management impacts would pose additional hardship on those direct purchase clients who are also ratepayers. Cengas stated that any effort in this area made by Centra would lead to uncertainty in the monthly reference price. Cengas requested the Board to reaffirm statements made in Order 79/98.

13.0 Presentors

The Board has received approximately 250 telephone calls from citizens who left their names and expressed concerns with Centra's requested rate increase. In addition, many citizens attended the public hearing or wrote to the Board to express their concerns with the large increase in natural gas rates sought by Centra.

Mr. Cerilli, President of the Manitoba Federation of Union Retirees, stated that the increase in essential fuel costs is a cost that seniors and working men and women cannot afford and should not be allowed. Mr. Cerilli stated that millions of Canadians including retirees on fixed income cannot afford an increase on average of $10 per month for one Utility. He called for a national debate on energy and other costs that impact the country.

Ms. Osiowy stated that the proposed increase of $20 per month in her monthly budget amount with Centra was objectionable. Ms. Osiowy stated that it was unrealistic for Centra to request such a large percentage increase in terms of the percentage increase in other areas such as retirement income and working people's wages.

Mr. Gavrailoff, President of Bituminex Limited, a manufacturer and contractor of asphalt paving products, stated his concerns with the increase applied for by Centra. Bituminex requires a significant volume of natural gas in the process of manufacturing asphalt. A rate increase was not factored into existing asphalt contracts. Mr. Gavrailoff stated that there was no way to pass on the gas increase to its customers due to the contracts negotiated. He requested a delay in the implementation of the increase until after the current asphalt-paving season in December 1998.

Mr. Simpson of Boreland Construction, an asphalt paving Company, expressed a similar concern as Mr. Gavrailoff. He also requested a delay in the implementation of any Board approved rate increase.

Mr. Kenny, of the Apartment Investors Association of Manitoba Incorporated, opposed the increase due to its negative impact on landlords. Mr. Kenny stated that utility rate increases have outstripped inflation and have resulted in substantial revenue reductions for landlords. Due to high vacancy rates, any proposed increase in natural gas rates could not be passed on to tenants and would have to be absorbed by landlords.

Mr. Permut of Condominium Corporation No. 30 opposed the increase proposed by Centra. Mr. Permut stated that the increase proposed would increase the Condominium Corporation No. 30's gas bill and consequently increases gas cost. This increase would have to be absorbed, with no recourse to increase income.

Mr. Steek, City Councillor for the River Heights and Wolsley Ward noted that 16 percent of his ward were seniors. The vast majority of seniors are on fixed income and the increase requested would pose an undue burden on them. Mr. Steek also noted that if the increase requested is approved, the City of Winnipeg would incur an additional $1.2 to $ 1.3 million in gas costs that would have to be recovered from city taxpayers.

Ms Bruce of People Empowering Themselves Against the System opposed the increase due to its negative effect on social assistance recipients' and the working poor individuals' ability to survive. Ms Bruce stated that their income is not indexed to the cost of living increases, nor has their income increased in the last ten years. Even a minimal increase in gas prices means food out of their families' mouths. Ms Bruce stated that Centra cannot justify an increase in their fees unless they are willing to lobby for an increase in the budgets of income assisted people or for an increase in minimum wage.

Mr. Kaufmann stated that the face of retailing has changed and has put downward pressures on prices for a select range of goods, making it difficult for small retail businesses to compete. Mr. Kaufmann stated that small businesses are not able to absorb a 20 to 30 percent gas hike and pass it on to customers in the price of goods.

Ms. Hogan stated that she would like to see a correlation between the time of the adjustment for gas rates and the change in the cost of the commodity, to avoid future large increases in rates.

Ms Poizer stated that she agreed with Ms Standing and Ms Hogan in opposing the rate increase sought.

Mr. Chernety stated that he would like to see gas rates decrease when wholesale gas prices decrease.

Ms May stated that it was unreasonable for Centra to request such a large increase when compared to the small increases in working people’s wages.

Ms Wood stated that any financial problems that Centra Gas is facing, because of their own mismanagement, should not be passed on to the consumer.

Mr. Thomas of the Manitoba Association of School Trustees expressed their concern that a gas rate increase would mean an additional expenditure of about $1,560,000 for the Manitoba Public School Boards. Mr. Thomas stated that the Public School Boards are already working with extremely tight budgets and would have to reduce educational services to cover these additional costs. This could mean a reduction of approximately 33 teaching positions. Mr Thomas stated that the school trustees are opposed to the rate increase.

Ms Tooth, as an owner of a rental property, opposed the rate increase due to its negative impact on landlords and their tenants. Landlords could not absorb the increase and would have to pass the extra cost on to tenants.

Ms Kinsman, as a homeowner, expressed opposition to the proposed rate increase because it could affect whether she can afford to keep her home.

Mr. Puffalt, representing the Town Council of Dauphin, expressed its opposition to the rate increases. Mr. Puffalt stated that the Town of Dauphin would not oppose a rate increase consistent with the Consumer Price Index.

Mr. Carriere opposed the rate increase. He stated that Centra should look internally for better solutions to their monetary shortfalls.

Ms John expressed concern that the average wage earner would not be able to afford a large rate increase when their wages are increased minimally, if at all. Ms John was also concerned about the number of PUB hearings Centra has had this year.

Ms Aldcroft expressed opposition to the rate increase. Ms Aldcroft stated that she is a senior living on a fixed income and cannot afford the increase in the cost of gas.

Mr. Silva, the City Councillor for the Daniel McIntyre Ward, stated his opposition to the increase proposed and noted that the increase requested is beyond what a regular consumer in his

Ward could bear. Mr. Silva also noted that the increase in rates might contribute to a potential increase in property taxes, due to an increase in gas costs to the City of Winnipeg.

Rochelle Zimberg, representing the Manitoba Association of Urban Municipalities, expressed its opposition to any current proposed rate increases.

Ms Edgeworth, representing the Rural Municipality of Miniota, expressed its opposition to the application by Centra to increase gas rates.

Conrad Nicholson, a representative of the Council of the Town of Morris, stated that it is opposed to the rate increases.

Richard Morantz of the Professional Property Managers Association ("the Association") expressed his concern with the negative impact that a large rate increase will have on the rental housing industry. He stated that the provincial government has established a 1 % rent increase for 1998 and 1999. The proposed gas rate increase well exceeds the allowable rent increase and leaves nothing for other increases. Mr Morantz stated the Association believes that gas prices should be based on actual costs incurred and not forecasted expenses. The Association requested that if the Board approves the increase that it be phased in over a period of five years to minimize rate shock. The Association also asked that the Board advise the Government of Manitoba of the serious problems encountered by the rental housing industry when faced with these unanticipated costs.

A Deger, of Bison Rock & Asphalt Products Ltd. and Riverside Gravel (1985) Inc., expressed his concerns about the proposed rate increases. The companies require large volumes of natural gas in the manufacture of asphalt and an increase in the price of the gas was not factored into existing contracts. Mr. Deger stated that prices on contracts are locked in and asked that the Board give at least six months notice on gas rate increases.

Ms Komadowski, Ms Standing, Ms Ross, Ms Pollack, Mr. Haeberle, Henri and Dianne Gauthier, Karl and Kristine Bauernhuber, Mr Davis, Mr. McLean, Mr. Herbach, F. A. Anderson, and Michael and Lorraine Peladeau all expressed their opposition to the proposed rate increase.

14.0 Board Findings

14.1 Marketing Salaries and Benefits

The Board has stated its concerns about the level of marketing salaries and benefits in Board Orders 8/97 and 79/98 and continues to be concerned that there is no new evidence to support these expenditures and no clear strategic plan to support the significant increase in these costs. For reasons previously stated in these Orders, the Board will not allow the amount of $1,116,400 as an addition to 1998 revenue requirement for rate setting purposes.

14.2 1998 Average Cost of Gas

The Board believes that the most current reliable information available should be used to estimate gas costs. The Board therefore supports the gas costs determined using the July 22, 1998 forward price curves. Based on Centra's revised calculation of the 1998 Average Western Canadian Supply Price, the 1998 gas cost forecast of $195,809,200 should be reduced by approximately $3,860,000, resulting in an average 1998 Western Canadian gas cost of approximately $2.20 per GJ. This adjustment should be reflected in the final calculation of 1998 Revenue Requirement and rates.

14.3 Cost Allocation

In Order 79/98, the Board directed Centra to design 1998 rates in a manner that all customer classes receive the benefit of the proposed change in the accounting treatment of contributions in aid of construction. The incremental amount, however, was not to be added to the SGS rate. This incremental amount is to be accumulated in a deferral account to be dealt with at a later time.

Centra advised the Board that because of time constraints, this directive was not reflected in the revised filing, had a minor impact on rates, and would be implemented in final rates if requested by the Board.

There is a separate ongoing process to review the allocation of transmission, and transmission related cost. The Board will therefore require that the SGS class adjustment to be made in the rates flowing from this Order. The resulting deferral amount will be addressed after final resolution of the cost allocation issues related to transmission plant.

14.4 Carrying Costs on Deferral Accounts

Centra has correctly argued that the cost of financing the significant deferral account balances exceeds their cost of short-term debt, and because of the large balance in the accounts, imposes an unfair financial consequence on Centra. Normally, Centra is allowed to record carrying costs on deferral accounts at the short-term debt rate. Recognizing the unique circumstances that have resulted in the very large deferral account balances, and in the interest of fairness and financial integrity, the Board will allow Centra to record carrying costs on all deferral accounts in an amount equal to overall allowed rate of return. This decision is not to be precedent setting and is made purely in the context of the current unique circumstances and substantial account balances. The question of an appropriate rate to use for carrying costs in future applications may be revisited by the Board once deferral account balances are restored to more normal levels.

14.5 1998 Allowed Price Management

As directed in Order 79/98, the allowed 1998 Price Management Results are to remain in a deferral account, to be dealt with in determining 1999 rates. At the same time, the Board will deal with additional 1998 Price Management losses of approximately $4 million which were identified by Centra following the 1998 GRA, and were not considered as part of that process.

14.6 Amendments to TCGS Contract

Based on the evidence presented, the Board will approve, for inclusion in rates between November 1, 1998 and October 31, 1999, the gas cost consequences of the June 16, 1998 amendments to Centra's contract with TransCanada Gas Services.

Parties are encouraged to advise the Board of suggested processes which would permit the full vetting of the negotiations leading up to proposed amendments, without compromising Centra's position in subsequent negotiations or arbitrations.

The Board further notes Centra's commitment as party to the contract to file a final copy of the contract with the Board in due course.

14.7 Budget Plan

During the hearing the Board heard concerns expressed by customers regarding increases in the budget plan. Centra continues to operate the budget plan in a manner consistent with Board approved process. Gas costs have increased substantially, and it is appropriate that budget plan arrangements should be modified to reflect those increases. The Board will expect Centra to ensure that the budget plan arrangements also reflect the substance of the decisions set out in this Order. The Board also encourages Centra to offer flexibility in the budget plan to its customers to further stabilize the impacts of this division.

14.8 1998 Forecast Capacity Management Revenues

The 1998 rates should reflect the estimated 1998 capacity management revenues of approximately $3 million.

14.9 Revised Rates

The Board will direct Centra to file revised rates that reflect the above decisions to be effective August 1, 1998. As a result of the decisions, a typical residential customer will experience an increase in their annual heating bill in the range of 4.1% ($652 - $678 per annum) depending on gas volumes consumed.

Because of the timing of this rate change, the rates must recover 12 months of 1998 revenue requirement over the remaining five months of 1998. Accordingly, a rate rider must be added to the base rate for the period August 1, 1998 to December 31, 1998. The percentage increase in rates for a typical residential customer from existing rates for this five month period will be approximately 12.9% because twelve months of revenue must be recovered over five months.

The Board believes that the decisions set out in this Order represent a reasonable balance between maintaining the financial integrity of Centra and being sensitive to the financial burden placed on consumers.

15.0 IT IS THEREFORE ORDERED THAT:

1. Centra's revised filings of 1998 Rate Base, Revenue Requirement, and Deferral Account Balances BE AND ARE HEREBY APPROVED subject to the following adjustments:

    a) remove $1,116,400 of marketing salaries and benefits from 1998 Revenue Requirement
    b) reduce 1998 forecast rate gas costs by approximately $3,860,000 to reflect the revised cost of gas resulting from the July 22, 1998 forward price curves;
    c) implement the deferral of the SGS class rate impact due to the change in the treatment of contributions in aid of construction;
    d) use the overall allowed rate of return in calculating of the carrying costs on deferral account balances; and
    e) defer the 1998 Price Management results and recover through a future rate change.

2. Centra immediately file for approval a revised calculation of 1998 Rate Base, Revenue Requirement, and Rates to be effective August 1, 1998.

3. The gas cost consequences of the June 16, 1998 amendments to Centra's contract with TransCanada Gas Services, BE AND ARE HEREBY APPROVED.

THE PUBLIC UTILITIES BOARD

Chairman

Acting Secretary

THE PUBLIC UTILITIES BOARD
"G. D. Forrest"
Chairman

"Hollis Singh"
Acting Secretary

Certified a true copy of
Order No. 103/98 issued by
The Public Utilities Board

Acting Secretary