

MANITOBA) **Order No. 163/03**
)
)
THE PUBLIC UTILITIES BOARD OF MANITOBA) **October 31, 2003**

Before: G. D. Forrest, Chair
L. Evans, Member
M. Girouard, Member
Mario J. Santos, Member

**AN APPLICATION BY THE GLADSTONE, AUSTIN NATURAL GAS CO-
OP LTD. FOR APPROVAL OF:**

- 1. A DECREASE IN THE SALES RATE TO BE CHARGED FOR ALL
GAS CONSUMED ON AND AFTER NOVEMBER 1, 2003.**
- 2. A CHANGE IN THE RATE SETTING METHODOLOGY TO
ALLOW FOR A CHANGE IN SALES RATES EVERY GAS-YEAR
QUARTER**

1.0 Background

In interim ex-parte Order 22/03, dated February 19, 2003, the Public Utilities Board (“the Board”) approved an increase in the Commodity Rate for the sale of natural gas by the Gladstone, Austin Natural Gas Co-op Ltd. (“ the Co-op”) to be effective for all gas consumed on and after February 1, 2003. The current sales rate includes a basic monthly charge of \$10.00 per service and a Commodity Sales Rate of \$11.75/Gigajoule (“Gj”).

The current sales rate is based on an average delivered price of \$8.00/Gj, and a weighted average gas commodity purchase price of \$6.679/Gj. The commodity portion of the approved sales rate is \$8.40 to allow for the full recovery of the estimated 2002/03 Purchase Gas Variance Account (“PGVA”) balance by October 31, 2003.

Gas costs for 2002/03 were based on the 12-month supply contract between PremStar Energy Canada Ltd. (“PremStar”) and the Co-op commencing November 1, 2002. This contract contains a variable pricing mechanism that reflects future natural gas commodity market price changes. Under the pricing mechanism, gas was purchased at the AECO “C”. NIT Daily Index price plus actual costs for transportation from AECO “C”. NIT TO Empress, both as reported in the Canadian Gas Price Reporter, plus a brokerage and gas management fee of \$0.10 per Gj.

2.0 Application

On September 30, 2003, Campbell Ryder Engineering Ltd. ("CRE"), on behalf of the Co-op, filed an application with the Board seeking ex-parte approval for a decrease in the Commodity Sales Rate. The anticipated decrease was \$1.47/Gj based on the September 26, 2003 market strip and an estimated zero PGVA balance at October 31, 2004. On October 6, 2003 CRE filed an update to the application using the October 3, 2003 market strip and a zero October 31, 2004 PGVA balance.

The Co-op has decided to continue its gas supply arrangement with PremStar for the supply of natural gas for a 12-month period commencing November 1, 2003. The Co-op submitted that entering a fixed price arrangement was not viable at this time because of high market volatility, large premiums necessary to secure a fixed price contract, and a belief that the current market may be over priced. Additionally, the Co-op's small annual throughput failed to attract other vendors and favored the continuation of the existing arrangement. As well, PremStar's management of excess transportation capacity had resulted in a benefit of approximately \$19,200 by the Co-op over the past year, and that benefit is expected to continue in the next year.

Based on the pricing mechanism contained in the PremStar Contract and the October 3, 2003 market strip, the Co-op requests a Commodity Sales Rate of \$10.33/Gj which is a decrease of \$1.42/Gj (12.2%) from the existing rate. The

proposed Commodity Sales Rate embeds an estimated natural gas commodity price of \$5.921/Gj, pursuant to the Contract with PremStar.

The estimated PGVA balance at October 31, 2003 is \$23,344 owing to the customers. The anticipated net revenue from sales of excess transportation capacity is \$16,500. The Commodity Sales Rate includes the average annual commodity price payable to PremStar, Transportation to City Gate, a PGVA balance refund and a component of downstream system delivery costs.

The 2003/04 forecast sales volume is 78,630 Gj, which is somewhat less than the 80,123 Gj now projected for 2002/03 and is based on a five year average and consideration of current circumstances. Lower sales volumes are anticipated because of the general state of the current agricultural economy, expectation of limited domestic market growth, and a return to normal sales volumes that were greater than normal in 2002/03.

In addition to the requested rate change for November 1, 2003, the Co-op is requesting that the Board approve a change in the method of establishing rates. Currently, the Co-op attempts to maintain annual rates, changing every November 1. Because of market volatility and the need to ensure that costs and recoveries are maintained within a reasonable balance, the Co-op is requesting that sales rates be changed every gas-year quarter (February 1, May 1, August 1 and November 1).

The proposed method is the same as that used by Centra Gas Manitoba Inc, in respect of Primary Gas rates. The method requires a forecast of gas costs and PGVA balance at the end of every quarter, and rates would reflect the forecast

gas costs plus an amount to dispose of any PGVA balance over the next 12 months' annualized volumes. The disposal of the PGVA balance at the end of any quarter would be on a continuous or "rolling" 12-month volumes.

The Co-op advised its customers of the requested changes in rates by way of bill insert included with the October bills. The bill insert requested any interested party to provide comments respecting this application to the Board by October 23, 2003.

3.0 Board Findings

3.1 November 1, 2003 Commodity Sales Rate

The Board continues to be of the view that sales rate should closely reflect market prices for natural gas, and that rate stability and intergenerational equity should also be considerations in rate setting. The Board also recognizes that natural gas prices have displayed a significant volatility over the past several years. As an example, the Board notes that the February 1, 2003 change in rates represented an increase in gas costs of approximately 25%, while this application is seeking rates that are 12% below the current rate. The Board accepts that uncertainties in the natural gas markets, demand forecasts, and existing supply availability will likely result in prices displaying continued price volatility in the near term.

The Board is of the view that gas sales forecast, diversion revenues, unit rates and fuel requirements are reasonable. The Board considers the requested

Commodity Sales Rate appropriately reflects and balances the three elements considered to be important by the Board: prevailing market prices, rate stability and intergenerational equity. The Board will therefore approve the Schedule of Rates shown, attached as Appendix “A” to this Order.

3.2 Change in Rate Setting Methodology

The Board’s view is that rates should, as close as practical, reflect prevailing natural gas commodity prices, while maintaining a certain degree of stability, and that costs incurred by a specific consumer class should be paid for by that class. In order to achieve this, the Board had instituted a rate setting methodology (“RSM”) in respect of Primary Gas Sales Rates for Manitoba’s largest gas distribution company in 2000. Since that time the RSM has been reviewed and refined with the most recent RSM being the subject of Order 143/03, dated October 3, 2003.

The Board notes that the Co-op is proposing to adopt the RSM as outlined in that Order, and will approve the proposal.

5.0 IT IS THEREFORE ORDERED THAT:

1. The Schedule of Rates requested by the Gladstone, Austin Natural Gas Co-op Ltd, and attached as Appendix "A" to this Order BE AND IS HEREBY APPROVED. The rates are to be effective for all gas consumed on and after November 1, 2003.
2. The Rate setting Methodology to change rates every gas year quarter, namely February 1, May 1, August 1, and November 1, as requested by the Co-op BE AND IS HEREBY APPROVED.
3. Interim Board Order No. 22/03 dated February 19, 2003 BE AND IS HEREBY CONFIRMED AS FINAL.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"

Chairman

"H. M. SINGH"

Acting Secretary

Certified a true copy of Order No. 163/03
issued by The Public Utilities Board

Acting Secretary

APPENDIX "A"

GLADSTONE AUSTIN NATURAL GAS CO-OP LTD.

RATE SCHEDULE

FOR SERVICE TO ALL CUSTOMERS, WITH RESPECT TO
ALL CONSUMPTION ON AND AFTER NOVEMBER 1, 2003

Basic Monthly Charge: \$10.00 per service

Commodity Sales Rate: \$10.33 per GJ

Minimum Monthly Bill: Basic Monthly Charge

Late Payment Charge:

All accounts are due upon issue of the invoice. Accounts not paid in full within 15 days of the date of issue of the invoice are subject to a penalty of 1.5% (19.56% per annum - compounded monthly) of the total amount then in arrears, and the whole amount shall then become due and payable.

NOTE: Based on forecast market prices as at October 3, 2003