

M A N I T O B A) **Order No. 166/01**
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THE PUBLIC UTILITIES BOARD ACT) **October 26, 2001**

BEFORE: G. D. Forrest, Chair
M. Girouard, Member
M. Santos, Member

**AN APPLICATION BY THE GLADSTONE, AUSTIN NATURAL
GAS CO-OP LTD. FOR INTERIM EX-PARTE APPROVAL OF A
DECREASE IN THE SALES RATE TO BE CHARGED FOR ALL
GAS CONSUMED ON AND AFTER NOVEMBER 1, 2001**

Executive Summary

As a commodity subject to market fluctuations, natural gas prices respond to demand and supply forces in the unregulated market. The large increases in natural gas prices in the past year were a result of market conditions, and were a North American phenomenon caused by an upturn in North American demand. However, prices have decreased during the past summer, reflecting a decrease in demand and relatively high storage levels.

The Gladstone, Austin Natural Gas Co-op Ltd. (“the Co-op”) passes the price it pays for natural gas through to its customers with no mark-up, and therefore does not profit from gas cost increases. In addition to the commodity cost of gas, other components of a natural gas bill include the cost to transport the gas to the Co-op’s franchise area, the cost to distribute the gas to the end-user, and a basic monthly charge.

On August 27, 2001 the Co-op applied to the Public Utilities Board (“the Board”) for ex parte approval to decrease the commodity portion of the rate from the current

\$10.59 per Gigajoule ("Gj") to \$9.95 Gj, while maintaining the current fixed monthly charge at \$10.00. The proposed rates include a commodity cost of natural gas of \$5.25 per Gj, compared to the \$5.90 per Gj reflected in existing rates.

The Co-op solicited a number of firms for quotations for gas supply for the 12-month period commencing November 1, 2001, but very little interest was shown by suppliers due to the relatively low volumes required, and the Co-op's high variability in consumption patterns. The Co-op negotiated a 12-month supply agreement commencing November 1, 2001 with SaskEnergy, who also supplied the Co-op's requirements last year. Combined with the increases in transportation tolls, as approved by the National Energy Board, the delivered cost of gas at the city gate is forecast to be approximately \$6.70 per Gj, compared to the existing \$7.24 per Gj. In order to preserve its customer base, the Co-op has decided to decrease the commodity rate to \$6.60 per Gj, which is slightly less than the forecast cost of gas. The Board approved this rate, considering that a rate below \$10.00 would send proper signals that the cost of gas is decreasing. The Board also considered the fact that the current PGVA balance is in a credit position; (funds are owing to consumers). With the new rates, it is estimated that the PGVA balance at October 31, 2001 will be eroded, and may show a slight negative balance.

The Board approved the Co-op's application, but on an interim and refundable basis. The Co-op notified its customers of the decreased rate by way of a bill stuffer and advertisements in the local paper and advised them of their right to make their views known to the Board. The Board will then either confirm or otherwise deal with this application on a final basis. While the commodity cost of gas has decreased by approximately 8.8%, the annual residential heating bill for a consumer using 100 Gjs of energy per year will decrease by only approximately 5.5% due primarily to increased transportation costs.

The Board is encouraged by the recent decrease in gas prices, but cautions consumers, that, with the onset of the winter season, prices could again increase. Industry analysts forecast that though prices may increase, they will not approach the large increases experienced in 2000 and 2001.

1.0 Background

In Order 146/00, dated November 7, 2000, the Public Utilities Board ("the Board") approved rates 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 November 1, 2000. The approved sales rate included a basic monthly charge of \$10.00 per service and a commodity rate of \$10.59 per Gigajoule ("Gj"). A weighted average gas commodity purchase price was estimated at \$5.90/Gj and an average delivered price estimated at \$7.242/Gj was embedded in the overall sales rate.

2.0 Application

2.1 General

On August 27, 2001 Campbell Ryder Engineering Ltd., on behalf of the Co-op, filed an application requesting the Board to grant ex parte approval for a change in the Commodity Sales Rate to be charged for all consumption on and after November 1, 2001. The request was to decrease the commodity charge in the rate schedule from \$10.59 to \$9.95/Gj, with the basic monthly charge of \$10.00 per service to be unchanged. The Co-op stated that the decrease was as a result of an 8.8% decrease to the price of gas being purchased for re-sale from \$5.90 to \$5.25/Gj. The decrease in the commodity cost of gas is offset to some degree by an increase in TCPL tolls from an average of \$1.27 to an estimated \$1.45/Gj. The delivered cost of gas will decrease from the current \$7.24 to approximately \$6.70/Gj. The requested rate will reflect a commodity cost of gas of \$6.60 per Gj, which is less than the expected cost of \$6.7/Gj.

The Co-op is of the view that approval of this rate change will provide customers with awareness of the decrease in commodity costs as well as addressing the financial concerns of the Co-op. The Co-op intends to advise customers of the changes in rates by way of a bill stuffer and through placing advertisements in the local paper. Customers will also be advised of their right to make their views known to the Board. The Co-op requested that if the Board was not able to approve the application on an ex parte basis, approval should be granted on an interim refundable basis under the least cost regulatory model previously approved by the Board.

2.2 Cost of Gas

The Co-op has entered into a fixed gas supply contract for the gas contract year ending October 31, 2002 with SaskEnergy Inc. that contains a commodity cost of gas of \$5.25 per Gj. The Co-op stated that SaskEnergy was awarded the contract when other suppliers expressed very little interest in committing to the Co-op's small annual volume requirements and high consumption variability.

TCPL Firm Service transportation costs, as approved by the National Energy Board, have increased by \$794.00 per month, or approximately \$0.18/Gj. The estimated average unit transportation cost for 2000/20001 is \$1.45 per Gj, resulting in an estimated cost of \$6.669/Gj for gas delivered at the city gate, including fuel and unaccounted for gas.

Because TCPL has significant excess capacity, which is not contracted, nor is expected to be contracted in the near future, there is limited opportunity for sale of excess capacity or diversion by the Co-op. Accordingly, as was the case last year, no allowance has been for additional excess capacity resale revenue.

The calculations for the revised forecast cost of gas based on a purchase of 77,440 Gjs is appended as Schedule B to this Order. The Co-op gas purchases from

SaskEnergy are transported on the TCPL System to Manitoba, requiring compressor fuel of approximately 2% of volumes shipped. Consequently, when an annual sales volume is forecast, an additional 2% is added to determine the natural gas required to be purchased. However, because of the small volumes consumed by the Co-op and the high variability in seasonal demand, TCPL's measurement of volumes is not precise in this circumstance and results in "measurement slippage". Thus, the Co-op has sales that are almost identical to purchases, and the payment for transportation is based on 2% less volume than is purchased, and therefore benefits the Co-op.

2.3 Purchase Gas Variance Account

The balance in the PGVA at July 31, 2001 is \$31,232 owing to customers, and the October 31, 2001 balance is expected to be approximately \$16,000 owing to customers. The proposed rate embeds a unit commodity cost of \$6.60 per Gj, although the cost is forecast to be \$6.70 per Gj. The purpose is to have a sales rate that is less than \$10.00/Gj, which the Co-op feels will send a proper price signal to consumers and maintain its client base. The Co-op indicated that if the rate, which embeds a cost of gas less than the forecast gas costs for 2001/02, is approved, the PGVA balance will be eroded by October 31, 2002, and will be in a negative position of \$5,366 (i.e. owing to the Co-op).

2.4 Sales Volumes and Customers

The Co-op is forecasting normalized sales for the upcoming year to remain at the same level as experienced in 2000/01. Sales volumes from November 1, 2001 to October 31, 2002 are estimated to be 74,471 Gj compared to the current year projection of 77,400 Gj. Actual sales to the end of July 2002 were 67,665 Gj.

3.0 Board Findings

The Board recognizes that the annual load required by the Co-op to serve its customers is relatively small and is almost exclusively a heat sensitive load. The Board appreciates that suppliers may be hesitant to commit to supply such a market, in today's circumstances. Given these constraints, the Board is satisfied that the proposed revised commodity rate of \$5.25 per Gj reasonably reflects the least expensive gas costs that the Co-op was able to attract by an acceptable process. The Board notes that the process still resulted in an 8.8% decrease from the previous commodity price of \$5.90/Gj.

The decrease in commodity price is, unfortunately, somewhat offset by the increase transportation tolls, which are approved by the National Energy Board, and are passed on to the Co-op's customers. Nonetheless, when all cost components are considered, the requested rate will result in a 5.5% decrease in an annual bill for the typical residential using 100 Gj.

The Board also acknowledges that the proposed sales rates will embed a delivered commodity cost of \$6.60 per Gj, rather than the estimated cost of \$6.70 per Gj. The October 31, 2001 balance in the PGVA is expected to be about \$16,000, owing to the customers. Since the proposed rate will not fully recover the estimated cost of gas, any difference will serve to reduce the PPVA balance. The customer will eventually pay for the actual gas costs. The Co-op estimates that within a year the PPVA balance may be in a slight negative position, where money is owing to the Co-op. The Board is of the view that the decision to reduce the overall rate to below \$10.00 in order to maintain the customer base, and to send proper pricing signals to the consumer, combined with the status of the PPVA is reasonable.

The Board understands that the Co-op did notify its customers of the increase in rates. As of October 25, 2001 the Board had not received any complaints on the application. The Board will subsequently deal with this application on a final basis.

As in previous years, the Board will direct the Co-op to file its audited financial statements with the Board within 90 days of its fiscal year ending September 30, 2001 to include:

- a) a summary of customers and sales volumes and revenues by categories and communities;
- b) continuity schedules of fixed assets and accumulated depreciation;
- c) sources of funding; and
- d) a summary of operating costs by major category with the previous year's comparison, and forecast for next year.

4.0 IT IS THEREFORE ORDERED THAT:

1. The commodity sales rate requested by Gladstone, Austin Natural Gas Co-op Ltd. and attached as Schedule "A" to this Order BE AND IS HEREBY APPROVED ON AN INTERIM REFUNDABLE BASIS. These interim refundable rates are to be effective for all gas consumed on or after November 1, 2001.
2. Gladstone, Austin Natural Gas Co-op Ltd. file with the Board a copy of the audited financial statements and other information as detailed in Section 3.0 of this Order by December 31, 2001.
3. Interim Order 146/00, dated November 7, 2000 BE AND IS HEREBY CONFIRMED.
4. This Interim Order shall be in full force and effect until confirmed or otherwise by the Board at the next earliest opportunity.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"

Chairman

"H. M. SINGH"

Acting Secretary

Certified a true copy of Order No. 166/01
issued by The Public Utilities Board

Acting Secretary