

MANITOBA) Order No. 22/03
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THE PUBLIC UTILITIES BOARD ACT) February 19, 2003

Before: G. D. Forrest, Chairman
M. Girouard, Member
Mario J. Santos, Member

**AN APPLICATION BY THE GLADSTONE, AUSTIN NATURAL
GAS CO-OP LTD. FOR INTERIM EX PARTE APPROVAL OF
AN INCREASE IN THE SALES RATE TO BE CHARGED FOR
ALL GAS CONSUMED ON AND AFTER FEBRUARY 1, 2003**

1.0 Background

In Order 189/02, dated November 5, 2002, the Public Utilities Board (“the Board”) approved the continuation of 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 November 1, 2002. This rate was initially approved in Order 166/01, dated October 26, 2001, to become effective November 1, 2001. The current sales rate includes a basic monthly charge of \$10.00 per service and a Commodity Sales Rate of \$9.95/Gj.

The current sales rate is based on an average delivered price of \$6.60/Gj, and a weighted average gas commodity purchase price of \$5.25/Gj. In November 2002, the actual commodity purchase price for 2002/03 was estimated to be \$5.388/Gj and the average delivered price to be \$6.863/Gj. The sales rate was based on costs lower than those estimated because the Purchase Gas Variance Account (“PGVA”) was in a credit position and the existing rate would result in a full refund of the 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. Delivered gas costs include revised volume estimates, current TCPL tolls and tariffs, unaccounted for gas allowance of 1.6%, and revenue from sales of excess capacity.

2.0 Application

On January 24, 2003, Campbell Ryder Engineering Ltd., on behalf of the Co-op, filed an application with the Board to grant ex parte approval for an increase to the Commodity Sales Rate of \$1.80/Gj, from \$9.95/Gj to \$11.75/Gj. The Co-op stated that the increase was required due to an increase in the price of gas being purchased for re-sale from the \$5.25/Gj imbedded in current sales rate to \$6.679/Gj. Using the market strip close at January 23, 2003, the delivered gas cost is estimated to increase from the \$6.60/Gj reflected in current sales rate to approximately \$8.00/Gj over the 2002/03 gas year, from November 1, 2002 to October 31, 2003.

The actual PGVA balance at October 31, 2002 was \$27,805 owing to the customers. The Co-op submitted that, without a change in rates, the PGVA from November 1, 2002 to October 31, 2003 would accumulate such that the October 31, 2003 balance would be approximately \$80,500 owing to the Co-op. All else being equal, an increase in the Commodity Sales Rate of \$1.80/Gj, effective February 1, 2003, is required to yield a PGVA balance of approximately zero at October 31, 2003. This change represents an increase of approximately 18% over the existing Commodity Sales Rate. The \$1.80/Gj increase will recover the estimated 12 month increase in gas costs over the remaining nine months of the gas contract year.

The Co-op submitted that factors such as the recent day-to-day volatility in gas prices, uncertainties respecting geo political influences on oil production, forecast for a colder than normal winter in Canada and the U.S. and demand outstripping available supply, suggest that there will be no softening of gas prices in the near future.

The Co-op proposed advising its customers of the requested changes in rates by way of bill insert to be included with the February mailing. The bill insert requested

any interested parties to provide comments respecting this application to the Board by February 17, 2003.

3.0 Public Presentations

Comments respecting this application were received from Mr. Chris Suderman and from Mr. Vincent Hooper. Mr. Suderman requested information respecting caps limiting the amount of increase that a gas company could implement, stating that the cost of gas pursuant to this application would increase by 18%.

Mr. Hooper submitted that currently the cost of natural gas to heat his home is \$100 more per month than it was four years ago. He requested that the Board provide some assistance to enable the average consumer to still be able to pay the bills on time and with dignity.

4.0 Board Findings

4.1.1 Public Presentations

The Board has provided the information requested by Mr. Suderman in a separate communication dated February 13, 2003. The communication explained the methodology that is used to establish rates that is driven by prevailing market prices of natural gas at any given time, and included a copy of Board Order 189/02 that last approved rates for the Co-op.

While the Board is sympathetic to Mr. Hooper's position, the Board notes that the Co-op is only passing on its actual cost of gas to the consumer, without realizing any "mark-up", or profit on the transaction. The price that the Co-op pays for natural gas is dictated by market forces that are largely beyond the control of the Co-op,

especially with its small customer base. The market has displayed significant increases and volatility since the late summer and fall of 2002.

4.1.2 The Application

The Board has previously expressed the view that sales rates should closely reflect market prices for natural gas, and that rate stability as well as intergenerational equity should also be considered in rate setting. The Board recognizes that natural gas prices have increased dramatically since October 2002. The forecast average cost of gas for the 2002/03 gas year, based on the October 10, 2002 forward price strip was approximately \$5.33/Gj, compared to the \$6.679/Gj forecast submitted in this application. This change represents an increase in gas prices in excess of 25%. The Board accepts that uncertainties in the natural gas markets, demand forecasts, and existing supply availability will likely result in prices remaining at current high levels in the near term.

The Board notes that absent any increase in the sales rate, the estimated PGVA balance at October 31, 2003 would be approximately \$80,000 owing to the Co-op. The Board considers that allowing the PGVA balance to build up to this level is not appropriate, as future rates would have to be increased to cover both cost of gas being consumed in the current gas-year, and the large PGVA balance. The Board also notes that the Sales Rates have not changed since November 1, 2001 and this has resulted in stable rates for over a year. The Board is of the view that the requested rate increase 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.

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 ON AN INTERIM REFUNDABLE BASIS. The rates are to be effective for all gas consumed on and after February 1, 2003.
2. Interim Board Order 189/02 dated November 5, 2002 BE AND IS HEREBY CONFIRMED as final.
3. This interim ex parte Order shall be in full force and effect until confirmed or otherwise dealt with 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. 22/03
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 FEBRUARY 1, 2003

Basic Monthly Charge: \$10.00 per service

Commodity Sales Rate: \$11.75 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.