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THE PUBLIC UTILITIES BOARD ACT ) November 7, 2000

**BEFORE:** G. D. Forrest, Chairman  
M. Girouard, 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 NOVEMBER 1, 2000**

## **Executive Summary**

As a commodity subject to market fluctuations, natural gas prices respond to demand and supply forces in the unregulated market. The current large increases in natural gas prices are a result of today's market conditions, are a North American phenomenon caused by an upturn in North American demand.

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 October 23, 2000 the Co-op applied to the Public Utilities Board ("the Board") for ex parte approval to increase the commodity portion of the rate from the current \$8.05 per Gigajoule ("GJ") to \$11.72 per GJ, as the entire increase of \$3.67 is due to an increase of the commodity price of natural gas. The Co-op solicited a number of quotations for gas supply for the 12-month period commencing November 1, 2000, but only received a limited response due to the relatively low volumes required.

The Co-op determined that SaskEnergy offered the least cost gas to the customer and contained the most flexible pricing arrangements for the upcoming year. The flexible pricing arrangement allowed the Co-op to lock into a fixed price at the beginning of any month for the balance of that year's volumes. On October 27, 2000 the Co-op advised the Board that it had opted to invoke this option and entered into a fixed price arrangement for the balance of the year which resulted in a revised commodity rate of \$10.59 per GJ, compared to the \$11.72 requested in the original application.

The Board recognizes that the current commodity rate is based on an existing commodity cost of gas which is approximately one-half of the new commodity price. The existing supply contract will expire on October 31, 2000 and because of the potential financial hardship to the Co-op which could result by delaying the requested rate increase, the Board approved the Co-op's application, but on an interim and refundable basis. The Board directed the Co-op to proceed with notifying its customers of the increased rate by way of a bill stuffer, and required that notice to indicate clearly that the Board would welcome comments from any and all customers. The Board will then either confirm or otherwise deal with this application on a final basis. The annual residential heating bill for a consumer using 100 GJ of energy per year will increase by 27.5%. The Board is concerned about the large increase requested, but recognizes that all other natural gas utilities, not only in Manitoba, but across North America are currently having to pay similar and higher commodity prices for natural gas.

## **1.0 Background**

In Order 176/99 dated November 1, 1999, 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, 1999. The approved sales rate included a basic monthly charge of \$10.00 per service and a commodity rate of \$8.05 per Gigajoule (“GJ”). A weighted average gas commodity purchase price was estimated at \$3.55/GJ and an average delivered price estimated at \$4.70/GJ was embedded in the overall sales rate.

## **2.0 Application**

### **2.1 General**

On October 23, 2000 Campbell Ryder Engineering Ltd., on behalf of the Co-op, filed an application requesting Board ex parte approval for a change in the Commodity Sales Rate to be charged for all consumption on and after November 1, 2000. The request was to increase the commodity charge in the rate schedule from \$8.05/GJ to \$11.72/GJ (45.6%), with the basic monthly charge of \$10.00 per service to be unchanged. The Co-op stated that the increase was entirely as a result of increases to the price of gas being purchased for re-sale and the associated TransCanada Pipeline (“TCPL”) transportation charges.

On October 27, 2000 the Co-op advised the Board that it had opted to invoke an option contained in its supply contract and enter into a fixed price arrangement for the balance of the year which resulted in a revised request for a commodity charge of \$10.59 per GJ (an increase of 31.6% in the commodity rate), compared to the \$11.72 requested in the original application.

The Co-op is aware of customer concerns regarding rising energy costs, but submitted that it had no way of mitigating these increased costs to customers. The Co-op is of the view that approval of the rate changes will provide customers with awareness of commodity costs as well as addressing the financial concerns of the Co-op. 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 an indexed gas supply contract for the gas contract year ending October 31, 2000 with SaskEnergy Inc. The price payable for the 12-month period commencing November 1, 2000 will be the then current index price for the month at AECO-C.NIT as reported in the Canadian Gas Price Reporter, plus a premium of \$0.30/GJ. The Co-op stated that SaskEnergy was awarded the contract after a review of quotations received from several reputable brokers and suppliers, and represented the least average unit cost to customers based on current market forecasts. The SaskEnergy

contract allows for locking in a fixed price at the beginning of any month within the contract year, and that price would then apply to all remaining volumes purchased for the balance of the year.

In the original application, the average commodity price for gas to be purchased was estimated to be \$7.018 per GJ. This is an increase of \$3.468/GJ over the \$3.55/GJ unit purchase price estimated for 1999/2000, which is an increase of 97.7%. The Co-op submitted that current cost of gas was more than double the cost available in the prior contract year. In the revised application the commodity price was fixed at \$5.90 per GJ commencing November 1, 2000, for the next 12-month volumes. This represents an increase of 66.2% in the basic commodity price.

TCPL Firm Service transportation costs have increased by \$548 per month, or approximately \$0.08/GJ, as approved by the National Energy Board. The estimated average unit transportation cost for 2000/20001 is \$1.28 per GJ, and \$8.37/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, no allowance has been made for additional revenue.

The calculations for the revised forecast cost of gas based on 78,271 GJs is appended as Schedule B to this Order. Overall the increase in the delivered cost of gas is 78%.

### **2.3 Purchase Gas Variance Account**

The balance in the PGVA at September 30, 2000 is \$10,765 owing to customers, and the October 31, 2000 balance is expected to be approximately \$10,000 owing to customers. The Co-op submitted that the balance will be fully offset by reduced sales volumes and margin revenues for 1999/2000 because of warmer than normal weather and the loss of one large volume customer. The Co-op is not proposing to refund the PGVA balance. The Co-op contended that gain within the PGVA mitigates approximately 30% of reduced revenue associated with the forecast margin on normal sales. The Co-op is projecting a nil PGVA balance for the gas-year ending October 31, 2001.

### **2.4 Sales Volumes and Customers**

The Co-op is forecasting normalized sales to remain stable as additional customer attachments are expected to be delayed because of the current high energy prices. Sales volumes from November 1, 2000 to October 31, 2001 are estimated to be 78,271 GJ compared to the prior year estimate of 81,277 GJ and actual sales to the end of September of 68,885 GJ. Assuming normal sales in October 2000, prior year volume sold would be 84,195 GJ.

### **3.0 Board Findings**

After reviewing the application, the Board asked for and received additional information from Campbell Ryder Engineering Ltd. regarding the awarding of the gas supply contracts and the notification to customers of the Co-op. The information, now forming a part of this application, is that numerous suppliers were asked to provide quotations for the supply of natural gas for the 2000/2001 gas year. Only two responded, with the majority citing the small volume required as the main reason for their lack of response. Of the two responses received the SaskEnergy arrangement, in the Board's view, clearly provides the least cost to the consumer. The Board is satisfied that the proposed revised commodity rate of \$10.59 per GJ properly reflects the least expensive gas costs that the Co-op was able to attract by an acceptable bidding process. The Board considers the action taken by the Co-op to fix the price at \$5.90 per GJ for the balance of the year to be reasonable and prudent, given the recent large increases in natural gas prices, and the high uncertainty and volatility in the natural gas market.

The Board also recognizes that the current sales rate is based in part on a commodity cost of gas which is significantly below the current market price. As the existing supply contract with the lower priced gas expired at the end of October, 2000, the Board accepts that there is some urgency to the approval of this application, and will grant approval on an interim refundable basis. The Board estimates that the requested increase in rates will result in an annual increase of approximately 27.5% to the typical residential heating bill based on normal weather. The increase in the annual bill is less than the increase in the basic commodity price because the other components of the rate that make up the total bill have not increased.

The Board understands that the Co-op is proposing to use a bill stuffer with the November bills to notify its customers of the increase in rates. The Board has reviewed the proposed draft, and is satisfied with the contents. The Board will direct that the draft be amended so as to emphasize that all customers have the right to make their views known to the Board, and should do so by writing to the Board's offices in Winnipeg by no later than November 30, 2000. The Board will subsequently deal with this application on a final basis.

The Board accepts the Co-op's submission with respect to the proposed treatment of the October 31, 2000 PGVA balance. Under this proposal, the balance will be used to offset the Co-op's ongoing operating costs. Given the current high market price for gas, it is reasonable to assume that new customers will delay connecting to the system, and that sales volumes will remain generally at current levels.

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, 2000 to include:

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- 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, 2000.
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, 2000.
3. Interim Order 176/99, dated November 1, 1999 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 of the Board No. 146/00 issued by The Public Utilities Board

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Acting Secretary