M A N I T O B A	**)**	**Order No. 109/2000**
	)	
THE PUBLIC UTILITIES BOARD ACT	**)**	**July 14, 2000**

Before: G. D. Forrest, Chair
M. Girouard, Member
R. Mayer, Member

CENTRA GAS MANITOBA INC. APPLICATION FOR AN INTERIM EX-PARTE ORDER OF THE BOARD:

1. **AUTHORIZING AND APPROVING AN AMENDMENT TO THE EXISTING FRANCHISE AGREEMENT BETWEEN CENTRA AND THE RURAL MUNICIPALITY OF GREY**

2. **APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO TWO CUSTOMERS WITHIN THE EXPANDED FRANCHISE AREA**

1.0 The Application

On July 4, 2000 Centra Gas Manitoba Inc. ("Centra") applied to the Manitoba Public Utilities Board ("the Board") for interim ex-parte approval of an amendment to the existing franchise agreement between Centra and the Rural Municipality of Grey ("Grey"), and interim ex-parte approval of the financial feasibility test for expansion of Centra's distribution system to serve two customers within the expanded franchise area.

2.0 Franchise Agreement

Centra currently has a franchise agreement for a portion of Grey. Centra's original franchise agreement with Grey was amended pursuant to Board Order 181/99, dated November 3, 1999 to accommodate a request by two customers for natural gas service. Like the previous expansion, this proposed amendment also responds to a request for natural gas service by two customers, located outside the current franchise agreement area. Centra's request is to expand the existing franchise area to include six quarter sections of land in Grey; the customers' premises are located on two of those quarter sections and the other four border the proposed new main, as shown on Appendix "A" attached to this Order. The amended franchise area still would not include the entire rural municipality.

Grey gave first reading to By-Law No. 6/2000 on May 7, 2000 which authorized Grey to enter into an agreement with Centra to amend the existing franchise agreement, subject to approval of the Board. Second and third reading of the By-Law will only be considered if the Board approves the amended franchise pursuant to Section 89 of the Public Utilities Board Act. If the application is approved, Centra proposed to install the necessary plant in August 2000, and to seek confirmation of this interim Order at the next General Rate Application or some other appropriate proceeding.

3.0 Customer Attachments, Volumes and Forecast Revenues

In the fall of 1999, a poultry farmer within Grey requested Centra to supply natural gas for his operation. The owner built a barn and an office in 1999 and used propane for the winter of 1999, with the hope of converting to natural gas for the 2000 season. The estimated annual consumption of 62,888 cubic metres was based on an analysis of the propane equipment energy requirements, as well as extrapolation of actual propane use data for a three-month period.

Additionally, a residential customer located across the highway from the poultry farm expressed interest in obtaining natural gas service for his residence. Centra used its average annual residential consumption of 2,832.8 cubic metres as the estimated consumption for this customer. No other customers or volumes are included in the feasibility test. Centra estimated annual revenues from the two customers by applying the appropriate base rates approved by the Board in Order 58/00, dated April 17, 2000.

4.0 System Design and Capital Costs

The system to serve the two customers would be an extension of an existing 60.3mm polyethylene main from the Village of St. Claude easterly along PTH # 2, for a distance of approximately 2,300 metres. The proposed pipeline route is also shown on Appendix “A”. As the distribution main is less than 10 kilometers in length, the project does not require environmental approval, pursuant to the Environment Act. Project drawings will be submitted by Centra to appropriate authorities upon approval of this application by the Board.

Centra indicated that site investigations and review of legal plans determined the location of the main. The cost estimates are in year 2000 dollars and included the following assumptions:

- 5% labour and materials contingency
- 1% interest during construction to contract labour and materials
- 24% overheads, consisting of 9% construction supervision, 5% engineering, 4% Project Administration, 5% marketing, and 1% overhead contingency

Estimated capital costs for the project are $28,881, to be spent by the second year. Capital costs are summarized in the feasibility test, attached as Appendix "B" to this Order.

5.0 Feasibility Test Methodology and Results

Centra used the Small General Class ("SGC") weighted average cost of gas ("WACOG") which was approved by the Board in Order 58/00 to calculate project revenues. Although the Large General Class WACOG is slightly less than the WACOG for the SGC residential customer, Centra submitted that their approach was a conservative one, and the use of a WACOG for each of the classes would not alter the feasibility test results in any material way. Other cost assumptions include:

- Annual operating and maintenance costs are $100 per customer.
- Depreciation expense is specific to plant installed and is 3.08%, based on the Centra's 1998 weighted average cost for distribution plant.
- Municipal property tax is calculated using current provincial assessed rates and the applicable 1999 mill rate. Corporate capital tax is calculated at a rate of 0.5% of net plant, prior to any contributions.
- Income Tax calculation assumes a combined Federal and Provincial corporate rate of 46.12%.
- Overall rate of return is 8.893%, as last approved by the Board in Order 17/98, dated June 19, 1998.

Applying the above cost assumptions and the calculated annual revenues to the Board approved 30 year NPV test, with a revenue to cost ration of 1.0 by the fifth year, results in required customer contributions of $20,043. Centra's allowable investment is $8,853. Appendix "B" details all 30-year NPV costs and revenues. Centra indicated the contributions have been paid and are being held by Centra.

6.0 Board Findings

The Board is satisfied that this application has been filed in a manner consistent with the Board's requirements to have system extension applications supported by a feasibility test and a franchise agreement, the standard form of which has been previously determined by the Board.

The Board has reviewed the system designs, as well as the feasibility test cost and revenue inputs and, on a prima facie basis, is satisfied that the Board's expansion criteria have been properly met. Due to the limited nature of this project, impacting only on two potential customers, and the need to commence construction as soon as possible, the Board will approve the application on an interim ex-parte basis.

However, before proceeding with construction, the Board will require Centra to discuss the impact of recent cost of gas changes with the potential customers to ensure that they are still prepared to convert to natural gas.

7.0 IT IS THEREFORE ORDERED THAT:

1. The proposed amendment to the Franchise Agreement between the Rural Municipality of Grey and Centra Gas Manitoba Inc. BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
2. The feasibility test as submitted by Centra Gas Manitoba Inc. BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
3. Centra Gas Manitoba Inc. advise to the two customers the of the current natural gas prices and all customer costs associated with conversion to natural gas, anticipated energy savings and payback period.
4. That this interim Order remains in full effect until confirmed or otherwise by a subsequent Order of the Board.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 109/00 issued by The Public Utilities Board

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Acting Secretary