M A N I T O B A	)	Order No. 140/00
	)	
THE PUBLIC UTILITIES BOARD ACT	)	October 27, 2000

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

CENTRA GAS MANITOBA INC. APPLICATION FOR AN INTERIM EX PARTE ORDER:

1. **AUTHORIZING AND APPROVING AN AMENDMENT TO THE EXISTING FRANCHISE AGREEMENT BETWEEN CENTRA GAS MANITOBA INC. AND THE RURAL MUNICIPALITY OF ROSSER**

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

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1.0 The Application

On September 20, 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 Rosser ("Rosser"), and interim ex parte approval of the financial feasibility test for expansion of Centra's distribution system to serve one customer within the subject franchise area.

2.0 Franchise Agreement

Centra currently has a franchise agreement with Rosser. Centra was requested to extend natural gas service to one customer, Agricore Cooperative Ltd. ("Agricore"), located north of the existing franchise area, in SE ¼ of Section 23, Township 12, Range 2, EPM. Rosser gave first reading to By-Law No. 8/00 on August 31, 2000 which authorized Rosser to amend the franchise agreement with Centra by adding an additional area that includes the Agricore plant, subject to approval of the Board. The amended franchise agreement would not include the entire municipality. 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 proposes to install the necessary plant in the fall of 2000, and to seek confirmation of this interim ex parte at the next General Rate Application or some other appropriate proceeding.

3.0 Customer Attachments, Volumes and Forecast Revenues

In late 1999, Agricore requested Centra to supply natural gas to a recently constructed grain terminal and office building. Agricore requires the service for the 2000/2001 winter season. The estimated annual consumption for the office building of 6,175 cubic meters was estimated on the square footage basis, while the grain dryer consumption of 31,444 cubic meters per year was estimated by calculating the average annual

consumption of other grain dryer customers that use natural gas on Centra's distribution system.

4.0 System Design and Capital Costs

Agricore would be served by tapping into an existing 114.3mm polyethylene line located on Pipeline Road, in the Rural Municipality of West St. Paul. A 114.3 mm polyethylene main would be installed for a distance of approximately 4,189 meters within existing rights-of-way, and a 114.3mm service line would be constructed to the Agricore facility. 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 $105,571, to be spent in the first year.

5.0 Feasibility Test Methodology and Results

Centra has determined that the project is feasible in that it meets the 30 year NPV test and achieves a revenue to cost (R/C) ratio of 1.0 by the end of the fifth year, as required by the Board. For the purposes of calculating the required contribution and to minimize the risk to existing customers, Centra included volumes and revenues for the grain dryer in years one through five only. Centra considers this a conservative approach as it recognizes the variability of grain dryer consumption related to crop production yields and weather. Centra maintains that this approach protects its existing customers. Centra expects, however, that revenues associated with the grain dryer will be collected in years six to thirty and the R/C ratio to be greater than 1.0 for these years, although this is not reflected in the feasibility test provided with the Application

The feasibility test was completed using the following assumptions:

- Centra used the Weighted Average Cost of Gas ("WACOG") rates as approved in Order 58/00. However, given that the total potential convertible annual load for the expansion is comprised of both a Small General Service ("SGS") customer (i.e., the grain dryer), and that the difference between the SGS and LGS Class WACOG rates is very minimal, the feasibility test uses only the higher SGS rate;

- Annual operating and maintenance ("O & M") expenses are estimated at $100 per customer;

- A depreciation rate of 3.08% is used based on Centra's 1998 weighted average depreciation rate for distribution plant;

- Municipal property tax is estimated using the current provincial assessed rates for each type of capital addition multiplied by the portioned assessment and the applicable 2000 mill rate;

- The corporate capital tax is calculated at the rate of 0.5% of net plant, before any contributions received by Centra;
- Income tax is estimated using the current combined Federal and Provincial corporate tax rate for Manitoba of 46.12;
- The feasibility test incorporates Centra's capital structure and cost of capital of 8.893% as approved in Order 79/98; and
- Based on the total capital cost of $105,752 and the results of the feasibility test, the total external contribution required to bring natural gas to the proposed area is $127,290. This amount has been paid to Centra by Agricore.

The feasibility test filed with the application results in a contribution by the customer of $127,290, and a Revenue to Cost ("R/C") ratio of 104.9% in year five. Because the grain dryer volumes have been removed from the test in years six to thirty, the R/C ratio drops to 55.3% in year six and reduces to 38.7% by year thirty. The net present value ("NPV") of the project under these assumptions is $1. The feasibility test filed with the application is attached to this order as Appendix A.

Historically, all of the projects which have been submitted to the Board for approval have ultimately resulted in an investment by the Company, and a resulting increase in the rate base of the Company. In this situation, a project will typically have an R/C ratio of less than 100% in the early years and the existing customers will fund the revenue deficiency which results. However, in the latter years of the project, the R/C ratio will gradually increase and a revenue sufficiency will result as the rate base of the project is depreciated. This occurs because as rate base decreases, the return on rate base and income tax will also decrease. In the latter years, the existing customers benefit from the revenue sufficiency from the project. Over the 30 year time period, there is no undue

impact on customers in that the net present value of the revenue deficiencies and sufficiencies is greater than or equal to zero.

The RM of Rosser (Agricore) project is unique in that it is the first project submitted to the Board for approval in which the contribution from the customer exceeds the capital cost of the project. As such, there will be an initial reduction in the Company's rate base as a result of undertaking this project. In this circumstance, the pattern of revenue deficiency and sufficiency is reversed from a typical project. In the early years of the project, the reduction in rate base (or the excess contribution over capital cost) results in a benefit to the existing customers in that there is a revenue sufficiency in these years and the R/C rate exceeds 100%. In the latter years, the R/C ratio begins to decline as the excess contribution is amortized. This occurs because the credit to return and income tax that the existing customers have been receiving gradually decreases to zero. In the latter years the existing customers fund the relatively minor revenue deficiency from the project. However, just as was the case with the "usual" project, over the 30 year time period, there is no undue rate impact on customers in that the net present value of the revenue deficiencies and sufficiencies equals at least zero.

By letter dated October 13, 2000, Centra filed a revised feasibility test that includes the estimated volumes of 1,110 Mcf from the grain dryer in years six to thirty, but maintains the customer contribution at the $127,290, which has already been paid to Centra by Agricore. In that scenario, the R/C ratio of the project is in excess of 100% until year 13. After year 13, the R/C ratio gradually declines from 99.9% in year 14 to 90.5% in year 30 for the reasons noted above. In addition; the revenue sufficiency in year one of the project is $6,089. In year two the annual revenue sufficiency is $485, and declines to $35 by year 13. In year 14 to 30 the annual revenue deficiency increases from $11 to $833. Over the life of the project the NPV is $6,755.

It is Centra's view that since the NPV is greater than zero, the project is feasible. In addition, the existing customers are well protected in that the revenue sufficiency is obtained up front in the early years of the project, and sufficient grain dryer volumes are expected in years six through thirty, even though the feasibility test makes the conservative assumption of no grain dryer volumes after year five.

6.0 Board Findings

The Board is satisfied that this Application is consistent with the Board's requirements for system extension applications, both in terms of the Board's approved feasibility test and franchise agreements with municipalities.

The Board has reviewed the system design, as well as the feasibility test cost and revenue assumptions, and, on a prima facie basis, is satisfied that the Board's expansion criteria have been properly met. Since the 30 year NPV of the project is positive using conservative assumptions for consumption, and Centra will have no rate base investment in the project, Centra's existing customers are well protected. Due to the need to commence construction as soon as possible, the Board will approve the Application on an interim ex parte basis.

The Board understands that pursuant to Centra's agreement with Agricore, Agricore is entitled to a refund of a portion of its customer contribution if actual volumes exceed the volumes assumed in the feasibility test. The Board further understands the agreement provides for no interest to be paid. The Board will require that Centra provide a copy of this agreement.

7.0 IT IS THEREFORE ORDERED THAT:

1. The requested amendment to the existing Franchise Agreement between the Rural Municipality of Rosser 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. Agricore Cooperative Ltd. be provided a refund of a portion of its customer contribution if actual volumes exceed the volumes assumed in the feasibility test at the end of the fifth year.

4. Centra file a copy of its agreement with Agricore Cooperative Ltd.

5. This interim Order will remain in full effect until confirmed or otherwise by a subsequent Order of the Board.

The Public Utilities Board

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Chairman

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Secretary

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"
Chairman

"G. O. Barron"
Secretary

Certified a true copy of
Order No. 140/00 issued by
The Public Utilities Board

Secretary