M A N I T O B A	**)**	**Order No. 154/01**
	)	
THE PUBLIC UTILITIES BOARD ACT	**)**	**October 11, 2001**

Before: G. D. Forrest, Chair
M. Girouard, Member
M. Santos, 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 ONE CUSTOMER WITHIN THE RURAL MUNICIPALITY OF GREY**

1.0 The Application

On October 4, 2001 Centra Gas Manitoba Inc. (“Centra”) applied to the Manitoba Public Utilities Board (“the Board”) for interim ex-parte approval and authorization 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 one customer within the expanded franchise area.

2.0 Franchise Agreement

Centra currently has a franchise agreement with Grey. Centra was requested to extend natural gas service by one customer, a broiler barn, located northwest of the existing franchise area, in NW¼ of Section 27, Township 9, Range 7, WPM (27-9-7W).

Grey gave first reading to By-Law No. 7/01 on July 18, 2001 which authorized Grey to amend the franchise agreement with Centra by including an additional area, subject to approval of the Board. The expanded area is to include the quarter of land upon which the potential customer’s premises are located and the adjacent quarter, being the NE ¼ of Section 34, Township 9, Range 7, WPM.
The expanded franchise area is not adjacent to the existing franchise area and would still not cover 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 2001, 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

The customer has requested service for the fall of 2001. The estimated annual consumption is 178,396 cubic metres and was based on a comparison of actual consumption for a similar customer with similar usage. Centra calculated the annual revenue of $47,379 by applying the approved base sales rates for the Large General Customer ("LGC") Class approved in Order 119/01, dated July 27, 2001 to the estimated annual volumes.

4.0 System Design and Capital Costs

Centra proposed to provide service to the customer by tapping into Centra's existing 88.9-mm steel transmission pipe serving the Town of St. Claude from the TransCanada Pipeline ("TCPL") System. A 60.3 polyethylene main would be installed for a distance of approximately 245 metres in a westerly direction, within the Municipal Road N53 right-of-way. A 43.2-mm polyethylene service line would be constructed to the customer's 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 's cost estimates are expressed in current (2001) dollars and included the following assumptions:

- 5% labour and materials contingency
- 1% interest during construction to contract labour and materials
- 24% overheads, consisting of 10.5% construction supervision, 3.5% engineering, 4% Project Administration, 5% marketing, and 1% overhead contingency

Estimated capital costs for the project are $13,018 to be spent in the first year. Capital costs are summarized in the feasibility test, attached as Appendix “A” to this Order.

5.0 Feasibility Test Methodology and Results

Centra used LGC weighted average cost of gas (“WACOG”) rate that was approved by the Board in Order 119/01 to calculate project revenues.

- 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 2001 mill rates, and estimated 2002 assessment rates.
- Corporate capital tax is calculated at a rate of 0.5% of net plant, prior to any customer contributions.
- Income Tax calculation assumes a combined Federal and Provincial corporate rate of 46.12%.
- Overall rate of return is 8.893% on a capital structure as last approved by the Board in Order 79/98, dated June 19, 1998

Centra submitted that the project is feasible because it satisfies the Board approved 30-year net present value (“NPV”) test, yielding a positive NPV of $28,461. Additionally, the project generates a revenue to cost (‘R/C”) ratio of 1.07 in the first year and is almost 1.08 in the fifth year, The NPV test requires that the R/C ratio be no less than 1.0 in the fifth year. Because the estimated volumes and revenues are sufficient to cover the capital and operating costs, there is no required contribution from the customer. There are no other potential customers, which can be served by the project at this time. Therefore, Centra has collected a refundable contribution of $5,000 to mitigate the risk of losing estimated volumes. If the

estimated volumes are achieved, the contribution will be refunded at the end of the fifth year of the project.

Appendix “A” details all 30-year NPV costs and revenues, and demonstrates that no customer contribution is required.

6.0 Board Findings

The Board notes that this application has been filed in a manner consistent with the Board’s requirements to have system extension applications supported by prior Board approved feasibility tests. The results flowing from the feasibility test indicate that the R/C ratio in year five of the project is 1.08, which meets one of the required NPV test criteria. Additionally, the test indicates that no customer contribution is required.

The Board recognizes that Centra has collected a $5,000 refundable contribution from the potential customer. The Board realizes that, while a customer contribution is not required pursuant to the NPV test if the estimated volumes are not actually consumed, or if the venture fails, Centra could be at risk for the entire investment. The Board will therefore approve the retention of the $5,000 customer contribution by Centra, provided that Centra submits a report on the expansion and indicates annual volume consumed no later than December 31, 2006.

The distribution line to serve the customer is to be installed in an existing municipal road right-of-way. The potential customer is located north of the distribution main, and the requested franchise extension comprises of this quarter section of land, as well as the quarter section of land adjacent and south of the right-of-way. The Board will approve the request to include both quarter sections of land in the franchise

expansion so that in the future customers on either side of the existing roadway could be provided with natural gas service.

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 need to commence construction as soon as possible to enable gas to flow this fall, the Board will approve the application on an interim ex-parte basis.

7.0 IT IS THEREFORE ORDERED THAT:

1. The amendment to the existing Franchise Agreement between the Rural Municipality of Grey and Centra Gas Manitoba Inc., as requested, 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 keeps the Board apprised of the volumes consumed on an annual basis, and submits a report on the status of the contribution by no later than December 31, 2006.

4. This interim Order remains in full effect until confirmed or otherwise by a subsequent Order of the Board.

THE PUBLIC UTILITEIS BOARD

"G. D. FORREST"
Chairman

"G. O. BARRON"
Secretary

Certified a true copy of Order No. 154/01
issued by The Public Utilities Board

Secretary