

M A N I T O B A) Order No. 164/01

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THE PUBLIC UTILITIES BOARD ACT) October 23, 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 ROCKWOOD**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO SERVICE THREE CUSTOMERS WITHIN THE RURAL MUNICIPALITY OF ROCKWOOD**

1.0 The Application

On October 9, 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 Rockwood (“Rockwood”), and interim ex-parte approval of the financial feasibility test for expansion of Centra’s distribution system to serve one commercial customer and two residential customers within the expanded franchise area.

2.0 Franchise Agreement

Centra currently has a franchise agreement with Rockwood covering a portion of the Municipality. Centra was requested to extend natural gas service to a commercial establishment located in NE ¼ of Section 20, Township 16, Range 2 EPM located northwest of the existing franchise area. The two residential customers are located adjacent to the distribution main required to serve the commercial customer. Thus, Centra has requested an amendment to its existing franchise agreement to include NE ¼ Section 20, Township 16, Range 2 EPM; NW ¼ Section 21, Township 16, Range 2 EPM; SW ¼ Section 28, Township 16, Range 2 EPM; and SE ¼ Section 29, Township 16, Range 2 EPM.

Rockwood gave first reading to By-Law No. 27/01 on August 8, 2001 which authorized Rockwood to amend the franchise agreement with Centra by including an additional area, subject to approval of the Board. The expanded franchise area is necessary to service the customers and, while adjacent to the existing franchise area 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 requested service in the spring of 2001. Centra canvassed the area and determined that there were a total of 7 potential customers which could be served. A total of three customers were signed up and are included in the first two years of the feasibility test. The estimated annual consumption of 14,136 cubic metres is based on the actual billing method for estimating space heating load for the commercial customer, while the residential consumption of 5,667 cubic metres is the average class usage for space and water heating equipment only. Annual volumes for the first year for the single commercial customer and one residential customer have been adjusted down by 50% to account for distribution of conversions, but have been included at 100% for the second and subsequent years. 50% of the estimated annual volume has been included for the second residential customer in the second year and adjusted to 100% of estimated usage in the third and subsequent years.

Centra calculated the annual revenues for the three customers by applying the, approved in Order 119/01, dated July 27, 2001, base sales rates for the Small General Customer ("SGC") Class to the estimated annual volumes of all three customers. The commercial customer's estimated annual consumption is such that this customer is in the SGC class, as are the two residential customers.

4.0 System Design and Capital Costs

Centra proposed to provide service to the customers by extending Centra's existing 60.3-mm polyethylene pipe located on Beach Road, in the Town of Teulon. The 60.3 polyethylene main would be installed for a distance of approximately 476 metres in a westerly direction along Beach Road. 26.7-mm and 21.3-mm polyethylene service line would be constructed to the customers' facilities. As the distribution main is less than 10 kilometers in length, and is located within an existing right-of-way, 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 \$10,708 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 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 Board approved 30-year net present value (“NPV”) test results in a required customer contribution of \$4,430. With this contribution the project generates a revenue to cost (“R/C”) ratio of 1.001 by the fifth year and does not fall below 1.0 for the duration of the project. The NPV test requires that the R/C ratio be no less than 1.0 in the fifth year.

Appendix “A” details all 30-year NPV costs and revenues, and demonstrates that a customer contribution of \$4,430 is required, which has been received by Centra.

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 1.001, if a customer contribution of \$4,430 is received which would satisfy the required NPV test criteria. The Board will require Centra to inform the Board if any other customers are served from this distribution main, and if so, the Board will expect that such customers will pay a pro-rata portion of the customer contribution, which will be refunded to the three customers included in the feasibility test analysis included with this application. The Board will also require Centra to provide a "true-up" report by December 31, 2006, in respect of this expansion.

The distribution line to serve the customers is to be installed in an existing municipal road right-of-way. The Board will approve the request to include all land in the franchise expansion, as requested by Centra, so that the three customers can 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 Rockwood 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., and attached as Appendix "A" to this Order, BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
3. Centra submit a report to the Board detailing the treatment of customer contributions related to any future customers that are attached to the expanded distribution system.
4. Centra submit a "true-up" report to the Board respecting this application by no later than December 31, 2006.
5. This interim Order remain 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. 164/01
issued by The Public Utilities Board

Acting Secretary