

**MANITOBA**

)

**Order No. 172/01**

)

**THE PUBLIC UTILITIES BOARD ACT** )

**November 5, 2001**

BEFORE: G. D. Forrest, Chairman  
M. Girouard, Member  
M. Santos, Member

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

- 1. THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO SERVICE CUSTOMERS WITHIN THE RURAL MUNICIPALITY OF BIFROST AND THE RURAL MUNICIPALITY OF WOODLANDS.**
- 2. A SCHEDULE TO BE USED TO CHARGE AND COLLECT CONNECTION FEES FROM THOSE CUSTOMERS ATTACHING TO THE SYSTEM IN THE PROJECT AREAS.**

## 1.0 Background

The Manitoba Public Utilities Board (“the Board”) approved franchise agreements between Centra Gas Manitoba Inc. (“Centra”) and the Rural Municipality of Bifrost (“Bifrost”) and the Rural Municipality of Woodlands (“Woodlands”) in Order 95/00, dated July 5, 2000. The Board also approved financial feasibility tests for customers to be served by the expansion in the Village of Riverton, the Towns of Arborg and Teulon, and customers located immediately adjacent to the communities of Riverton and Arborg in Bifrost, as well as in the Local Urban District of Warren in Woodlands. In addition, the Board approved a Connection Fee Schedule to be used by Centra to charge and collect connection fees from customers to be served by the expansion project.

The capital costs for the first ten years of the expansion were originally estimated to be \$7,300,744, with the sources of funding being:

• Municipal Governments	\$ 1,014,183
• Provincial Government	2,350,000
• Federal Government	2,350,000
• Centra Net Investment	1,090,009
• Customer Connection Fees	<u>496,552</u>
Total	\$ 7,300,744

Further, in Order 95/00, the Board directed Centra to submit a feasibility test to the Board for approval prior to the commencement of construction for any future expansion project which required main installations in excess of 500 metres.

## **2.0 The Application**

On October 22, 2001 Centra applied to the Board for interim ex-parte approval and authorization of the financial feasibility test for expansion of Centra's distribution system to serve customers located in Bifrost and Woodlands. Additionally, Centra requested approval and authorization of a Connection Fee Schedule to be used by Centra to charge and collect connection fees from those customers attaching to the system within the four specific areas of the proposed expansion, all within existing franchise areas.

## **3.0 Customer Attachments, Volumes and Forecast Revenues**

The Interlake Natural Gas Co-op ("ING") approached Centra in January of 2001 to investigate the feasibility of extending the natural gas system to these project areas. It had been determined that the Year 1 capital costs for the original Interlake Project would come in under estimates. The ING Co-op subsequently received approval from the Federal and Provincial Governments to utilize the unspent contributions from the original projects to help fund these expansions. Centra conducted a market survey in the areas and determined that there were a total of 32 potential residential and 18 potential commercial customers, which could be served.

Customer attachment rates and volumes used are the same as used in the original Interlake Project. The assumptions are that 20% of potential residential customers will attach in Year 1 with 70% attached by year 10. Similarly, commercial customer attachment rates assumed are 35% (50% of potential volumes) in Year 1 and 65% (80% of potential volumes) by Year 10. Centra has assumed no further customer attachments beyond Year 10.

Six residential customers (six were assumed for Year 1) and 10 commercial customers (6 were assumed for Year 1) have signed up to date, and customer sign-up activity is continuing. The estimated annual volumes of 157,000 cubic metres in Year 1, and 279,454 cubic metres in Year 10 are based on the actual billing and equipment input methods for estimating load. Annual volumes for new attachments have been adjusted down by 50% in the year of conversion to account for distribution of conversions, but have been included at 100% (i.e. annualized) for the following year.

#### **4.0 System Design and Capital Costs**

Of the four specific areas included in the proposed expansion, two are located in Bifrost. The first is to serve customers along 8,597 metres of 60.3-mm main running east and north of the existing Arborg Gate Station. The second will serve customers along 8,859 metres of 60.3-mm main running south from the existing Riverton Gate Station, with short laterals running east and west. These mains are shown on Attachment 1 and Attachment 2, appended to this Order.

The remaining two areas are located in Woodlands. The first will serve one customer from the Warren Town System, and the second will serve customers along a main running east and south from the Warren Gate Station. The system to serve the customers in Woodlands will consist of 14,476 metres of 60.3-mm distribution mains. These mains are shown on Attachment 3 to this Order.

All distribution mains will be installed within existing rights-of-way. Centra has indicated that all necessary construction and environmental approvals will be secured prior to starting construction, and construction drawings submitted to the necessary authorities.

The systems are designed to accommodate all potential customers identified by a market survey conducted in July 2001. Individual customers will be served by 60.3-mm, 33.4-mm or 26.7-mm service lines that will be installed by a variety of construction techniques, as appropriate for the area.

The estimated capital cost for the first ten years of the project is \$388,119. Of this amount, \$288,128 is to be spent in 2001 and \$39,161 in 2002 for mains, services and meters for 10 residential and 7 commercial customers. The remaining funds are for service and meter installations as the other 17 customers attach to the system over the succeeding 8 years. Capital costs are summarized in the feasibility test, attached as Appendix "A" to this Order.

Centra 's cost estimates are expressed in 2001 dollars and include the following assumptions:

- 10% contingency applied to contract labour and materials
- 1% interest during construction to contract labour and materials
- 18% overhead applied to contract labour and materials, consisting of 7.5% construction supervision, 2.5% engineering, 4% Project Administration, 3% marketing, and 1% overhead contingency

Estimated capital costs for the project are \$338,119 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 the Small General Class ("SGC") weighted average cost of gas ("WACOG") rate that was approved by the Board in Order 119/01 to calculate

project revenues, even though three of the customers will be in the Large General Class. Centra indicated that the difference in the WACOG between these two classes is very minimal, and the use of the higher SGC rate would not make a material difference to the feasibility test results.

The costs assumed by Centra for the feasibility test are:

- Annual operating and maintenance costs are \$100 per customer.
- Depreciation expense is specific to plant installed and is 2.68%, based on the weighted average depreciation rate for plant to be installed for these projects.
- 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 \$356,559, with Centra's allowable investment being \$31,560. With this contribution the project generates a revenue to cost ('R/C") ratio of 1.013 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" attached to this order details all 30-year NPV costs and revenues.

## **6.0 Funding Arrangements**

A portion of the capital costs of the original Interlake Project were funded by the Federal and Provincial Governments up to a maximum of \$2,350,000 each, and was provided as a percentage of eligible year one capital costs. Because the year one costs were less than estimated in the funding agreements, the Federal and Provincial Governments committed funding of approximately \$250,000 that is not required for the original Interlake Project.

ING requested and received approval to apply the unused portion of the funds, which would otherwise be lost, for these proposed expansion projects. Centra submitted copies of letters of confirmation from Provincial and Federal agencies that this project is consistent with the intent of the original agreements and that each of the two levels of government will contribute approximately \$116,500 to the project.

The Municipal portion of the project costs of \$96,443 are to be provided by ING from previous municipal contributions, administrative cost under-runs and interest earned on accounts. This project does not impact on any of ING's rights or obligations for the original Interlake Project, and according to Centra, ING will have advanced its total funding obligation of \$1,104,183 to Centra by December 31, 2001. Centra has included a copy of the funding agreement with ING, which is similar to the funding agreement related to the original Interlake Project.

The schedule of connection fees for which Centra is requesting approval contains fees that are slightly higher than those in the Connection Fee Schedule approved by the Board in Order 95/00, to reflect the higher cost of service for rural customers. Centra's proposed connection fees are similar to those approved by the Board in Order 93/00, dated July 4, 2000, for the Swan Valley Gas Corporation. The Proposed Rural Connection Fee Schedule is attached as Appendix "B" to this Order and a summary of Project Costs and Contributions is attached as Appendix "C".

## **7.0 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 1.013, if a customer contribution of \$356,559 is received. This satisfies the required NPV test criteria. The Board will also require Centra to provide a "true-up" report by December 31, 2006, in respect of this expansion.

The Board is satisfied with the copies of the letters of confirmation submitted by Centra from the Federal and Provincial Governments. The Board has reviewed the Project Funding Agreement between Centra and ING, and is satisfied with Centra's assurance that it is in all material aspects, except for project scope, dates, funding amounts and timing issues, the same as that accompanying the original Interlake Project application.



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.

The Board notes the proposed connection fees are higher than those previously approved by the Board. The Board recognizes that connection costs will likely be higher in rural than in urban areas because of differences in population density. In order to allow construction to commence this fall, the Board will approve the Rural Connection Fee Schedule, but will require that Centra fully justify these fees in conjunction with its application for disposition of this order on a final basis.

**5.0 IT IS THEREFORE ORDERED THAT:**

1. 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.
2. The Rural Connection Fee Schedule as submitted by Centra Gas Manitoba Inc., and attached as Appendix "B" to this Order, BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
3. Centra submit a report to the Board detailing the calculations used to justify the connection fees shown in Appendix "B" to this Order, by no later than February 15, 2002.

