

MANITOBA) **Order No. 134/02**
)
THE PUBLIC UTILITIES BOARD ACT) **July 30, 2002**

Before: G. D. Forrest, Chairman
M. Girouard, Member
Mario J. 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 GAS MANITOBA INC. AND THE RURAL
MUNICIPALITY OF ROCKWOOD**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR
THE EXPANSION OF NATURAL GAS SERVICE TO
THREE CUSTOMERS WITHIN THE RURAL
MUNICIPALITY OF ROCKWOOD**

1.0 The Application

On June 28, 2002, 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 two commercial customers and one residential customer 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 the SE ¼ of Section 22, Township 16, Range 2 EPM, located south of the existing franchise area, for the summer of 2002. Additionally one other commercial customer and one residential customer located in the same quarter have requested service. In total, there are potentially 2 commercial and 5 residential customers that could be served by this expansion project, all located within SE1/4-22-16-2 EPM.

Centra's view is that the interests of Rockwood and other future potential customers would be best served by amending the existing Franchise Agreement to include an area beyond that on which all current potential customers are situated. Centra submitted that because of the proximity of the proposed main extension to the existing highway routes, there is an increased likelihood of future expansion in adjacent areas. Thus, Centra has requested an amendment to its existing franchise agreement to include SE ¼ Section 21, SW ¼ Section 22, SE¼ Section 22; and NE ¼ Section 22, Section 15 and Section 16, all within Township 16, Range 2 EPM.

Rockwood gave first reading to By-Law No. 24/02 on June 12, 2002 which authorized Rockwood to amend the franchise agreement with Centra by including the additional area, subject to approval of the Board. The expanded franchise area is more than necessary to service the identified potential customers but, 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 summer of 2002, 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

A total of three customers have signed up and are included for purposes of the feasibility test. The estimated annual consumption of 31,333 cubic metres is based on the equipment-input and square footage load for the commercial customers, while the residential consumption of 2,833 cubic metres is the Small General Class ("SGC") average used for all recent expansion applications. 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. Fifty percent of the estimated annual volume has been included for a second commercial 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 sales rates approved in Order 84/02, dated May 16, 2002 for the SGC" to all three customers to the estimated annual volumes. While the commercial customers will be in the Large General Class ("LGC"), Centra has used the

higher SGC, as the difference between the two rates is minimal, and represents a more conservative approach.

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 at the south end of the Town of Teulon. The 60.3 polyethylene main would be installed for a distance of approximately 700 metres in the southerly direction, along the east side of Highway 7. 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 (2002) dollars and include 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 \$18,488 to be spent in the first three years. 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 SGC weighted average cost of gas (“WACOG”) rate that was approved by the Board in Order 84/02 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 2002 mill rates and assessment rates.
- Corporate capital tax is calculated at a rate of 0.5% of net plant, prior to any customer contributions.
- Income Tax is calculated assuming 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 \$2,518. The NPV test requires that the R/C ratio be no less than 1.0 in the fifth year. With this contribution the project generates a revenue to cost (“R/C”) ratio of 1.00 by the fourth year and does not fall below 1.0 for the duration of the project.

Appendix “A” details all 30-year NPV costs and revenues, and demonstrates that a customer contribution of \$2,518 is required. However, Centra stated that because of the small size of the project and in order to mitigate risks to existing customers, Centra had requested, and received customer contributions in the amount of \$5,000 from the two commercial customers. Centra indicated that a true up would be completed at the end of year five to determine if any customers would be entitled to a refund for a portion of their contributions.

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 four of the project is 1.00, if a customer contribution of \$2,518 is received, which would satisfy the required NPV test criteria. The Board will require Centra to refund the difference between the required contributions of \$2,518 and the \$5,000 collected from the two customers. The Board is of the view that the customer contributions must be the amount indicated by the feasibility test. If Centra is concerned about volumes or customer numbers, such concerns should be reflected in the customer and volume estimates. Once these estimates are finalized contributions should be in conformance with the results of the feasibility test and greater amounts should not be collected.

The Board will approve the entire territory as applied for to be included in the amended franchise agreement, in this instance. However, the Board will require future applications for either amendments to or new franchise agreements to specifically justify requests for expanded territories to serve other than that necessary to serve identified potential customers. Such justifications could include market surveys, or additional customer contacts.

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 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, as herein modified.

The Board will also require Centra to provide a "true-up" report by December 31, 2007, in respect of this expansion.

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 Gas Manitoba Inc. refund those customer contributions in excess of the required \$2,518 indicated by the feasibility test, on a pro-rata basis.

4. Centra submit a "true-up" report to the Board respecting this application by no later than December 31, 2007.

5. That 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.
134/02 issued by The Public
Utilities Board

Acting Secretary