

MANITOBA) **Order No. 132/05**
)
THE PUBLIC UTILITIES BOARD ACT) **October 3, 2005**

Before: Graham F.J. Lane, B.A., C.A., Chairman
Monica Girouard, C.G.A., Member
Mario J. Santos, B.A., L.L.B., 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; and**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS SERVICE TO FOUR CUSTOMERS WITHIN THE RURAL MUNICIPALITY OF ROCKWOOD.**

1.0 The Application

On August 30, 2005 Centra Gas Manitoba Inc. ("Centra") applied on its own behalf and that of the Rural Municipality of Rockwood ("Rockwood") to the Manitoba Public Utilities Board ("the Board"), for:

- a) interim ex-parte approval and authorization of an amendment to the existing franchise agreement between Centra and Rockwood; and
- b) interim ex-parte approval of the financial feasibility test for expansion of Centra's distribution system to serve three commercial customers and one residential customer within the proposed expanded franchise area.

2.0 Expansion Area

Rockwood gave first reading to a By-law permitting Centra to extend its franchise to provide for expanded service on September 8, 2004. Centra has a franchise agreement with Rockwood covering a portion of the Municipality. The proposed expansion is comprised of the following sections located directly on either side of the proposed distribution line:

- Section 25 and 26, Township 15, Range 2 EPM.
- Sections 1, 12, 13 and 24, Township 16, Range 2 EPM.
- Sections 19, 30 and 31, Township 15, Range 3 EPM
- Sections 6, 7, 18, 19, Township 16 Range 3 EPM.

Centra requested approval on an interim ex-parte basis at the Board's earliest convenience in order to accommodate a construction start scheduled for October 2005. Centra will seek final approval of the Board at the next public regulatory proceeding.

3.0 Customer Attachments, Volumes and Forecast Revenues

Centra was asked to extend natural gas service to three commercial customers: a large hog barn, a seed processing plant and grain dryer, and a turkey barn. A potential residential customer, located on the property owned by the seed processing plant and grain dryer, also requested natural gas service. These proposed customers want to receive natural gas prior to this upcoming winter.

The estimated annual gas consumption:

- a) for the hog barn, 239,246 m³ based on actual propane consumption records, propane being the current energy source for the barn. The existing propane boilers will be converted to natural gas, to provide space heat and hot water;
- b) for the seed processing and grain dryer operation, 79,324 m³ based on propane and oil consumption records. A new natural gas boiler and grain dryer has been installed to increase the operation's ability to process cereal crops;
- c) for the turkey barn, 55,159 m³ based on propane consumption records. The existing propane unit heaters and boiler will be converted to natural gas; and
- d) for the residence, 2,833 m³ based on load assumptions used in other recent expansion projects for residential customers.

The combined annual volumes for the four proposed new Centra customers are 376,562 m³, included at 100% for the first and subsequent years of the feasibility test. Those now using propane have indicated they will convert to natural gas as soon as it is available. Centra revenues arising out of the proposed service extension were projected using base sales rates approved by the Board in Order 115/05 of July 27, 2005.

Deposits totaling \$72,000 plus GST were received by Centra.

The balance of the contribution due from the proposed new customers is \$62,299 plus GST and would be collected immediately following receipt of the Board's Interim Order approving the application, and before construction begins.

4.0 System Design and Capital Costs

The proposed main extension will tie-in to the existing 88.9 mm (NPS 3) transmission line supplying the Town of Teulon. A pressure reducing farm tap will be installed off the existing transmission pipeline to supply the main extension, which runs directly south from the farm tap for approximately 13.3 km.

The proposed project involves approximately 9,293 meters of 60.3 mm (NPS 2) and 4,023 meters of 88.9 mm (NPS 3) polyethylene main, which will be installed within existing government road allowance and on a private easement. Service lines are designed to meet peak loads for all these connected enterprises.

The system has been designed to serve only the proposed four new Centra customers; no excess capacity will be provided. Capital upgrades to the existing system are not required as a result of this project.

This proposed natural gas expansion project is classified as a Class 2 development under Section III of *The Manitoba Environment Act* (Manitoba Regulation 164/88). Class 2 developments greater than 10 km in length typically require the proponent to prepare or submit a proposal in writing to Manitoba Conservation to obtain a license and approval from the Director.

Centra has discussed this with Manitoba Conservation and the two parties have agreed that the area of installation is not sensitive to environmental disturbance

as it is within developed government road allowances and private easements. Manitoba Conservation has subsequently provided confirmation that this project does not require a formal submission in writing to Manitoba Conservation. The route was determined based on legal plans and a field site investigation.

The estimated capital cost for the extension is \$235,186, including the contributions received and due from the proposed new customers. The capital cost estimate was prepared using the following inputs and assumptions:

- Projected capital costs in 2005 Canadian dollars;
- General Freight included;
- 10% Contingency applied to contractor labour and materials;
- 1% Interest during construction applied to contractor labour and materials;
- 24% overhead applied to contractor labour and materials. This consists of 3.5% Engineering, 10.5% Construction, 4% Project Administration, 1% Overhead Contingencies and 5% Marketing.

5.0 Feasibility Test Methodology and Results

Centra has determined that the project meets the 30-Year net present value (“NPV”) test with an NPV of \$12,406, and would achieve a revenue to cost ratio of at least 1.0 by the end of the fifth year as required by the Board.

Based on total capital costs of \$235,186 and the assumptions in the feasibility test, the total contribution required is \$134,298. Each customer contribution was calculated by direct assignment of specific on-site costs, then allocated to arrive at the remaining required contribution on the basis of peak loads.

In accordance with the Interlake Natural Gas Expansion – Revised Connection Fee Schedule (approved in Order 103/05), each of the three commercial customers are required to pay a minimum, non-refundable connection fee of \$4,333. The one new residential customer is required to pay a minimum non-refundable connection fee of \$333.

Any refund due to the customer would not include the non-refundable payment. Connection fees form a part of the overall required contributions of \$134,298.

The cost to each of the customers to bring natural gas to their sites is as follows:

- Hog barn - \$49,610
- Seed processing plant and grain dryer - \$60,664
- Turkey barn - \$21,947
- Residential customer - \$2,077

The feasibility test was completed using the following assumptions:

- Appropriate Weighted Average Cost of Gas for each Large General Service and Small General Service customer (as approved in Order 103/05);
- A depreciation rate of 2.33% based on Centra's 2003/2004 weighted-average depreciation rate for distribution plant;
- Municipality property tax based on 2005 mill rates and 2002 assessment rates;
- Corporate capital tax calculated at the rate of 0.5% of net plant, before contributions received by Centra; and
- Income tax is no longer included as a component of the revenue requirement (as approved in Order 131/04), and the NPV of the revenue deficiency is discounted at Centra's weighted average cost of capital of 8.10% (Board Order 118/03).

A true-up will be completed at the end of five years (December 31, 2010), to determine if a refund is payable to the new customers.

6.0 Board Findings

The Board notes the application was filed in a manner consistent with the Board's requirements, including that system extension applications are to be supported by prior Board-approved feasibility tests. The results flowing from the feasibility test indicate that the revenue to cost ("R/C") ratio in year five of service would be expected to be 1.000, in short the project would fund itself. The test indicates that with customer contributions of \$134,298, the NPV test criteria is met.

The Board notes that the system extension has been designed to serve only the proposed four new customers, and no excess pipeline capacity has been provided. Given current market prices of natural gas and future uncertainties surrounding the market, the Board considers the approach taken by Centra to be prudent and reasonable. The Board will require Centra to provide a "true-up" report by December 31, 2010, in respect of this expansion.

The distribution lines to serve the customers are 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. The Board notes that Centra's capital cost estimates reflect current contract bids received, and considers the costs to be reasonable for purposes of the feasibility test. The Board further notes that the contributions have been allocated in a manner generally consistent with the principles Centra's cost of service allocation methodology, by direct assignment of site specific costs and an allocation of other costs based on respective demands

placed on the system, and considers this approach to be reasonable. 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 "true-up" report to the Board respecting this application by no later than December 31, 2010.
4. That this interim Order remain in full effect until confirmed or otherwise by a subsequent Order of the Board.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, B.A., C.A."
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No.
132/05 issued by The Public Utilities
Board

Acting Secretary