

MANITOBA

Order No. 115/99

THE PUBLIC UTILITIES BOARD ACT

June 24, 1999

Before: G. D. Forrest, Chairman
J. A. MacDonald, Member
K. Collin, Member

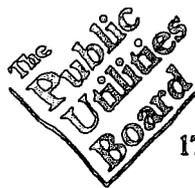
**AN APPLICATION BY CENTRA GAS MANITOBA INC., ON ITS OWN
BEHALF AND ON BEHALF OF THE RURAL MUNICIPALITY OF
ROCKWOOD, THE RURAL MUNICIPALITY OF WOODLANDS AND THE
TOWN OF TEULON, FOR AN ORDER:**

- 1. APPROVING AND AUTHORIZING NEW FRANCHISE AGREEMENTS
WITH THE RURAL MUNICIPALITIES OF ROCKWOOD AND
WOODLANDS AND THE TOWN OF TEULON**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE
EXPANSION OF NATURAL GAS TO THE COMMUNITIES OF GROSSE
ISLE (THAT PORTION LOCATED IN THE RURAL MUNICIPALITY OF
ROCKWOOD), BALMORAL, GUNTON, WARREN, WOODLANDS, AND
TEULON**
- 3. APPROVING AN EXPANSION SURCHARGE RATE TO BE CHARGED
FOR THE SALE OF GAS AND PROVISION OF TRANSPORTATION
SERVICES TO NEW CUSTOMERS IN THE RURAL MUNICIPALITIES OF
ROCKWOOD AND WOODLANDS AND THE TOWN OF TEULON**



Table of Contents

	Page
Executive Summary	i
1.0 APPEARANCES	1
2.0 WITNESSES	2
2.1 WITNESSES FOR CENTRA GAS MANITOBA INC.....	2
2.2 WITNESSES FOR INTERLAKE NATURAL GAS CO-OP LTD.....	2
3.0 INTERVENORS	2
4.0 PRESENTERS	3
5.0 BACKGROUND	6
6.0 THE APPLICATION	9
7.0 THE TRANSMISSION AND DISTRIBUTION SYSTEMS	11
7.1 SYSTEM DESIGN AND ROUTING	11
7.2 CAPITAL COSTS.....	13
8.0 THE FRANCHISE AGREEMENTS	14
9.0 THE FEASIBILITY TEST	15
9.1 CUSTOMER ATTACHMENTS AND ANNUAL VOLUMES.....	15
9.2 OTHER FEASIBILITY TEST COSTS AND FORECAST REVENUES	17
9.3 FEASIBILITY TEST RESULTS	18
9.4 CONVERSION COSTS AND POTENTIAL SAVINGS	18
10.0 FUNDING ARRANGEMENTS	20
10.1 FEDERAL FUNDING.....	20
10.2 PROVINCIAL FUNDING.....	21
10.3 MUNICIPAL FUNDING	21
10.4 CONNECTION FEES	22
10.5 FUNDING SUMMARY.....	23
11.0 SURCHARGE	24
12.0 THE ROLES AND RESPONSIBILITIES OF ING AND CENTRA	25
12.1 THE ROLES AND RESPONSIBILITIES OF ING	25
12.2 THE ROLES AND RESPONSIBILITIES OF CENTRA	25
12.3 JOINT RESPONSIBILITIES	26
13.0 PROJECT BENEFITS AND RISKS	27
14.0 POSSIBLE ACQUISITION OF CENTRA BY MANITOBA HYDRO	28
15.0 INTERVENORS' POSITIONS	29
16.0 PRESENTERS' POSITIONS	39
16.1 PRESENTERS WHO SUPPORTED THE APPLICATION	40
16.2 PRESENTERS WHO DID NOT SUPPORT THE APPLICATION.....	50



17.0	BOARD FINDINGS	60
17.1	GENERAL	60
17.2	FEASIBILITY TEST	61
17.3	FEDERAL FUNDING	62
17.4	PROVINCIAL FUNDINGS	63
17.5	MUNICIPAL FUNDING	64
17.6	FRANCHISE AGREEMENT	66
17.7	SURCHARGE	67
17.8	CONNECTION FEES	67
18.0	IT IS THEREFORE ORDERED THAT:	68

Executive Summary

During 1994 and 1995, the Interlake Development Corporation considered the economic viability of providing natural gas service to the Interlake area. The Interlake Natural Gas Co-op Ltd. (ING) was incorporated in 1996 and developed a business plan related to the extension of natural gas to the Interlake. ING subsequently established a working relationship with Centra Gas Manitoba Inc. (Centra), and also approached the Federal, Provincial and Municipal governments to secure third party funding necessary to make the proposed project financially viable.

ING worked with Centra to modify and refine a two-stage development program, each stage consisting of two phases. Stage I will extend natural gas service to six communities within the Rural Municipalities of Rockwood and Woodlands in Phase I and to all of the rural customers in Rockwood and Woodlands in Phase II. Stage II will extend natural gas to Arborg and Riverton in Phase I and Bifrost and Gimli in Phase II.

In December 1998, Centra applied to The Public Utilities Board ("the Board") for approval of new franchise agreements for the distribution of natural gas within the Rural Municipalities of Rockwood and Woodlands, and the Town of Teulon. Centra also applied for the approval of the financial feasibility test for expansion of natural gas service to the communities of Grosse Isle (that portion located in the Rural Municipality of Rockwood), Balmoral, Gunton, Warren, Woodlands and Teulon. Centra also requested approval of an expansion surcharge rate to be charged to new customers in the Rural Municipalities of Rockwood and Woodlands and the Town of Teulon.

A public hearing to consider the Application was held in Teulon over seven days during March 1999, and final argument was heard on April 7, 1999.

The proposed Phase I, Stage I project has an estimated capital cost of \$7,796,000 to be financed by a Federal contribution of \$2,350,000, a Provincial contribution of \$2,350,000,

Municipal contributions totalling \$4,247,000, connection fees of \$332,000 and an investment from Centra of \$552,000. The total funding package provides for \$2,035,000 to be set aside to provide for cost overruns from Phase I, if any, and to provide for future contribution funding for Phase II. No financial information regarding Phase II was filed with the Application.

Approximately \$3,395,000 of the required municipal funding is to be provided by increased property taxes resulting from proposed general levy increases of up to two mills. The balance of the municipal funding of approximately \$852,000 will come from increased property taxes on the distribution plant to be installed.

Seven interested parties actively participated as Intervenors throughout the hearing process by cross examining Centra, providing evidence of their own, and being subject to cross examination. The substance of the specific oppositions to the Application by several Intervenors had little to do with the extension of natural gas to the Interlake. Their opposition to the project was primarily related to the funding methodology adopted by the municipal governments which results in all residents paying increased property taxes even though some residents, particularly rural residents, may never have the opportunity to receive natural gas service. In addition, there was great displeasure with the process adopted by the municipalities, including a deficient communication process and a lack of opportunity for the residents to express their views regarding the financing options in a public forum.

In addition to the Intervenors, the Board heard over seventy excellent presentations from local residents, business owners and other interested parties. Those who spoke in favour of the Application talked about the need to create economic development and provide energy options for current and future businesses. They argued that without natural gas, the Interlake is at a disadvantage with respect to attracting new industry to the communities, and with respect to existing businesses becoming more competitive, thereby creating job opportunities

to retain young people in the community, and to increase the tax base. Most people who spoke in opposition to the Application were not opposed to natural gas service. Most presenters who spoke against the Application expressed frustration and concern with the process followed by the municipalities, the lack of communication between the residents of the communities and the local governments, and the lack of opportunity for the residents to express their views and opinions to the municipal governments.

The presenters included a significant number of rural customers who opposed the Application. This opposition was further supported by a petition that was filed by Ms. Pshyshlak, which purported to represent in excess of 3,000 single-family dwellings, many of them rural homes. This apparent significant opposition to the project by the rural citizens raised the Board's concerns regarding the potential customer attachments in Phase II. In addition, the Application before the Board included no information regarding the financial viability of Phase II. In its decision, therefore, the Board has denied approving the financial feasibility test for Phase I on a stand-alone basis.

The Board has directed Centra to file a revised financial feasibility test with the Board at the earliest possible opportunity. This revised financial feasibility test is to include both Phase I and Phase II of Stage I, reflect current market survey information on potential customers and customer attachments, and be realistic in light of the apparent negative public response to the Application. The design of the system is also to be consistent with the revised customer information, which may result in a reduction in the estimated capital cost, and a resulting reduction in required third party funding requirements.

The Board has urged the various municipal councils to seize the opportunity, in the time interval available while Centra updates its Application, to re-evaluate, along with its constituents, the various funding options that are available, and to consider options to re-establish communications with their constituents concerning this important project. The Board has chosen this alternative rather than exercising its jurisdiction under Section 66 of

the Public Utilities Act to require a vote of the residents, an action that was recommended by some Intervenors.

The Board has further directed that the existing potential customers in the current franchise area in Rockwood should not be disadvantaged in any way from the existing terms and conditions of service for a period of 90 days from the date of any future Order of the Board that may be issued on this matter. In addition, all connection fees from this expansion project must be charged and collected by Centra pursuant to a schedule of connection fees approved by the Board, and assessed to all new customers in a consistent fashion.

The proposed new franchise agreements have been approved, subject to Centra complying with the various other conditions of the Order discussed above. As well, a signed copy of the Provincial funding agreement must be filed with the Board at the earliest possible opportunity.

1.0 Appearances

R. F. Peters K. L. Kalinowsky	Counsel for The Public Utilities Board of Manitoba ("the Board")
M. T. O'Neill	Counsel for Centra Gas Manitoba Inc ("Centra")
B. J. Meronek, Q.C.	Counsel for Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc. ("CAC/MSOS")
T. Goodman	Counsel for Interlake Natural Gas Co-op Ltd. ("ING")
K. Melnychuk	Municipal Gas ("Municipal")
D. Briggs	On Her Own Behalf
S. Pshyshlak	On Her Own Behalf
G. Van Solkema	On His Own Behalf
M. Van Solkema	On His Own Behalf

2.0 Witnesses

2.1 Witnesses for Centra Gas Manitoba Inc.

I. D. Anderson	Vice-President, Marketing and Business Development
L. Stewart	Manager, Senior Project Development
D. P. Kroeker	Manager, Construction
G. Whitehill	Senior Manager, Regulatory Business Advisory Services

2.2 Witnesses for Interlake Natural Gas Co-op Ltd.

D. Fridfinnson	Coordinator
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3.0 Intervenors

Consumers Association of Canada (Manitoba) and the Manitoba Society of Seniors Inc.

Interlake Natural Gas Co-op Ltd.

Municipal Gas

D. Briggs

S. Pshyshlak

G. Van Solkema

M. Van Solkema

4.0 Presenters

Bernice Baldwin	Citizen	In Person
Brian Baker	Custom Vac Ltd.	In Person
Michael Benn	Interlake Potato and Canadian Greenfield Forages	In Person
Bruce Bond	Citizen	In Person
Bonnie Boon	Warren & District Chamber of Commerce	Written Presentation
Diane Mae Boychuk	Citizen	Written Presentation
Marty and Rachelle Brown	Citizens	Written Presentation
Curtis Charison	Charisons Turkey Hatchery	In Person
Ron Chercoe	Citizen	In Person
Adele Chornoby	Citizen	In Person
Mel Christian	Citizen	In Person
Barry Creaser	Citizen	Written Presentation
Allister B. Davidson	Citizen	Written Presentation
Chris Dawson	Teulon Community Development Corporation	In Person
Kenneth Emberley	Citizen	In Person
Jeff Epp	Arborg/Bifrost Community Development Corporation	In Person
Doug Erdman	NEICOM Developments	In Person
Melvin Eyolfson	Chairman, District 10 Keystone Agricultural Producers	In Person
Bill Fleury	Citizen	In Person
Lorne Floyd	Arborg Chamber of Commerce	In Person
Harold Foster	Councillor, Rural Municipality of Bifrost	In Person

Ruth Anne Furgala and Joanne King	Evergreen School Division, Maintenance and Transportation Committee to Evergreen School Div.	In Person
I. L. and D. Gallant	Citizens	In Person
Gord Green	Miami Beach (1997) Ltd.	Written Presentation
Claudette Griffin	Teulon and District Chamber of Commerce	In Person
Vi Hack	Citizen	In Person
Irvin Helwer	Interlake Potato and Canadian Greenfield Forages	In Person
Howard E. Hilstrom	Member of Parliament for Selkirk - Interlake	Written Presentation
Ted Hodgkinson	Mayor, Town of Teulon	In Person
Bruce Hogg, Jr.	Citizen	In Person
Gary and Brenda Hollier	Citizens	Written Presentation
Tom Huffman, Sr.	Citizens Advisory Committee, Stony Mountain Institution	In Person
John Inkster	Citizen	In Person
Carl R. Johanson	President of the Arborg District Agricultural Society	Written Presentation
Grant Johnson	Citizen	Written Presentation
I. A. Johnson	Citizen	Written Presentation
Ron Johnston	Paradigm Farms and Arborg Feeds Ltd.	In Person
George Junkin	Rural Municipality of Macdonald	In Person
Betty Kehler	Citizen	In Person
Bert Kindziarski	Town of Arborg	In Person
Larry LeSage	Citizen	In Person
Brenda Lesyk	Citizen	In Person
Colleen Letkeman	Citizen	In Person
Steve MacDuff	Citizen	In Person
Bill MacGillivray	President, S.I.R.C.I.	Written Presentation
James Macko	Citizen	In Person

Peter Marykuca	Citizen	Written Presentation
James and Irene McCormack	Citizens	Written Presentation
Clayton K. McMurren	Citizen	Written Presentation
Bill and Dorothy Myskiw	Citizens	Written Presentation
Blaine Myskiw	Citizen	Written Presentation
Bryan Oliver	Citizen	In Person
Ed Peltz	Reeve, Rural Municipality of Woodlands	In Person
Calvin Penner	Calvern Farms and Manitoba Pork - Interlake District	In Person
Nel Proskurnik	Citizen	In Person
Kathryn Pshyshlak	Citizen	In Person
Gordon Rajotte	Philosophy Practice Institute of Manitoba Incorporated The Selkirk Presbytery of the United Church of Canada	In Person
Bill Ridgeway	Citizen	In Person
J. Roberts	Citizen	Written Presentation
Michelle Salkeld	Northern Goose Processors	In Person
Gary Seidel	Citizen	In Person
Stephen Shinnie	Citizen	In Person
Douglas Stamler	Citizen	In Person
Randall Stefanson	Citizen	In Person
Harold Syrett	For S. Syrett and C. Syrett, Citizens	In Person
Wayne Taylor	Citizen	In Person
Leon Vandekerckhove	Reeve, Rural Municipality of Rockwood	In Person
Gary Van Den Bossche	Citizen	In Person
Rem Weiss	Deputy Mayor, Town of Teulon, President, Teulon Golf Course	In Person
Terry Zolinski	Citizen	In Person

5.0 Background

In October 1994, the Interlake Development Corporation, a regional economic development agency, organized a meeting with representatives of various Interlake municipalities and communities to discuss the possibility of extending natural gas service to the area through a co-operative. Subsequent to this meeting, the Interlake Development Corporation commissioned a feasibility study to review the economic viability of providing natural gas service to the entire Interlake area. This study, submitted in November 1995, suggested that the project could be economically viable, but recommended that a detailed business plan, including a preliminary feasibility study and capital cost estimate, be prepared to fully assess the costs, revenues and potential benefits in energy savings and enhanced economic development opportunities.

ING was incorporated on November 26, 1996 and initially consisted of fourteen member municipalities, local government districts, towns and communities including the Rural Municipalities of Armstrong, Bifrost, Cartier, Coldwell, Eriksdale, Fisher, Rockwood, Siglunes, St. Laurent and Woodlands, the Local Government District of Grahamdale, the Towns of Arborg and Teulon, and the Village of Riverton.

ING retained the services of a consulting engineering firm to prepare a detailed business plan related to the provision of natural gas service to the Interlake area. The business plan was submitted to ING in November 1997. The plan provided an assessment of potential markets as well as estimated costs and revenues necessary to extend natural gas service to all areas of the Interlake in several stages.

The RM of Cartier subsequently withdrew from ING membership because the proposed take-off point for the system, revised to be near Winnipeg, precluded the extension of service to their municipality. As well, six other participants, namely Armstrong, Coldwell, Fisher,

Siglunes, St. Laurent and Grahamdale withdrew as members, as they were not prepared to meet the required funding commitments. The decision of these six communities to withdraw effectively stranded Eriksdale, which also withdrew from ING in September 1998. In 1998, the Rural Municipality of Gimli joined ING, which then consisted of seven members being the Rural Municipalities of Gimli, Bifrost, Rockwood and Woodlands, the towns of Arborg and Teulon and the Village of Riverton.

Centra first approached ING in April 1996 and expressed an interest in working with ING to explore options to bring natural gas service to the remaining members of the Co-op. Centra was involved in the development of the business plan by performing those activities necessary to assess the feasibility in respect of the urban customers in the municipalities. The engineering consultant retained by ING in 1997 determined the feasibility in the rural areas. The original concept to install the necessary facilities in seven stages for the area was then revised to a two-stage project.

Stage I would extend service to six communities within Rockwood and Woodlands in Phase I, and subsequently attach rural customers within both Rockwood and Woodlands in Phase II.

Stage II would extend service to the Town of Arborg and the Village of Riverton, as the initial phase, and then to the rural areas of Bifrost and Gimli as the second phase. The designs as originally defined in the preparation of the detailed business plan were revised to reflect the reduced scope of the project.

ING approached the Federal government to secure a portion of the funding necessary to render the project economically viable. Eventually, on July 30, 1998, an amount of \$2,400,000 was committed to ING for this project, by the Federal government. Of this amount, \$50,000 was to be used for various administrative and marketing costs. In

announcing financial support, the Federal government assigned the funds to various specific communities within the Interlake.

As a result of the change in the scope of the project, after the Federal funding arrangements were announced, the Communities of Fisher Branch, Arborg and Riverton passed a resolution to have their funds directed to ING to help fund the Stage I expansion program, with the understanding that natural gas service would be extended to their area in future stages. ING then approached the Provincial government for additional funding assistance, and agreement in principle was reached whereby the Provincial government would contribute \$2,350,000 to the project. At the time of the hearing, Centra expected that the Provincial funding agreement would be executed in the near future.

ING, in conjunction with Centra, also determined the appropriate manner in which to arrange the municipal funding structure. This was to be a combination of an up front connection fee, a general municipal levy, and school division forgiveness of that portion of municipal tax generated by the installation of the proposed natural gas transmission and distribution system for the Evergreen and Interlake #21 School Divisions.

6.0 The Application

On December 18, 1998, Centra, on its own behalf and on behalf of the Rural Municipality of Rockwood ("Rockwood"), the Rural Municipality of Woodlands ("Woodlands") and the Town of Teulon ("Teulon"), applied to the Board, pursuant to The Public Utilities Board Act and the Municipal Act, for an order approving franchise agreements for the distribution of natural gas within Rockwood and Woodlands and Teulon. Centra requested approval to replace its existing franchise agreement for a portion of Rockwood with a new franchise agreement for all of Rockwood.

Centra also applied for approval of the financial feasibility test for expansion of natural gas service to the communities of Grosse Isle (that portion located in the RM of Rockwood), Balmoral, Gunton, Warren, Woodlands and Teulon ("the Communities"). Although the transmission facilities included in this Application are designed with sufficient capacity to serve the rural areas of Rockwood and Woodlands, rural customer distribution costs and revenues do not form a part of the feasibility test included in this Application.

Centra further requested approval of an expansion surcharge ("surcharge") to be charged for the sale of natural gas and provision of transportation services to its new customers in the proposed franchise areas. Centra proposed that the surcharge would not be applicable to customers presently on Centra's system within the existing Rockwood franchise area.

The proposed Interlake Expansion Plan consists of two stages, each with two phases of development. Stage I, Phase I, is planned to commence in 1999 to bring natural gas service to the communities of Warren, Woodlands, Balmoral, Gunton and Teulon and that portion of Gross Isle located in Rockwood. Stage I, Phase II, is planned to commence in 2000 to extend natural gas service to the rural portions of the Municipalities of Rockwood and Woodlands.

Stage II, Phase I, is anticipated to begin in 2000 to bring natural gas service to the communities of Riverton and Arborg. Stage II, Phase II is planned to begin in 2001 to extend natural gas service to the rural portion of Bifrost.

The current Application and the feasibility test apply only to Stage I, Phase I. The funding agreements apply to Stage I, Phase I and Phase II.

A public hearing to consider this Application was held at the Rockwood Recreational Centre in Teulon, Manitoba on March 3 - 5, 10 - 11, 22 - 23, 1999 and April 7, 1999.

7.0 The Transmission and Distribution Systems

7.1 System Design and Routing

The system is designed to meet the estimated demand of 100% of all potential residential and commercial customers in the Communities and surrounding rural areas as well as additional capacity to accommodate 20% future growth. The transmission system design will accommodate the projected peak hourly load of these customers. The peak hourly load was determined by applying a coincidence factor of approximately 65% to the estimated simultaneous peak load to recognize that all gas burning appliances will not be used at the same time during the peak period.

Centra stated that the customer profile used to design the transmission system was different from customer profiles used in the feasibility test. Potential customers for transmission design purposes were defined as all identified premises including mobile homes and vacant premises. However, mobile homes and vacant premises were not considered to be potential customers for purposes of the feasibility test. A 100% community and rural attachment rate was assumed in the design assumptions, while the feasibility test assumed that only 76% of potential customers within the Communities would convert. Thus, while the transmission component of the distribution plant is designed to meet the requirements of 100% of all identified premises within the two municipalities, estimated to be approximately 1,500, plus a 20% allowance for growth, the distribution costs and revenues included in this Application only consider the 641 customers in the six communities. The Phase I feasibility test does not include any costs or revenues related to potential rural customers.

Centra investigated four options for the routing of the transmission lines. The first option considered the use of Centra's existing 4" transmission line serving the communities of Stonewall and Stony Mountain. This option was discarded when it was determined that there

was insufficient capacity to meet the expansion requirements. Similarly, a lack of adequate capacity led to the abandonment of the second option, a take-off from Centra's existing Gimli transmission line. The third option, a take-off from the TransCanada Pipeline System in the RM of Cartier, near Elie was discarded as it required more than 50 kilometres of additional transmission line, and was considerably more expensive than the preferred option. The preferred option is the extension of the proposed Interlake transmission system from Centra's existing 16" transmission line near the West Perimeter Highway at Winnipeg. Centra submitted that this option is the least costly route to provide the required transmission capacity.

The proposed transmission line would be 86 kilometers in length and would serve the six Communities with six town border stations to reduce transmission pressure to distribution pressure. Transmission mains will consist of 4", 6" and 8" steel, while the distribution systems will be constructed of 2" and 4" polyethylene. Centra proposed to interconnect the new transmission line by way of a manually operated valve to its existing 4" line feeding Stonewall and Stony Mountain. Centra contends that this will enhance security of supply and provide alternate feeds, but the connection is not intended to increase capacity to these existing areas. The overall design is consistent with Centra's existing system, and will be installed in accordance with the applicable standards.

Centra stated that there are no upgrade or reinforcing costs required to their existing system required to accommodate this expansion.

Centra received approval for an environmental license for this project pursuant to the Manitoba Environment Act on July 8, 1998. An approval of an alteration involving the gas pipeline route originating at the West Perimeter Highway near Winnipeg, and terminating at Teulon and Woodlands, was obtained on December 21, 1998.

The proposed transmission and distribution system will be owned and operated by Centra.

7.2 Capital Costs

Centra estimated the capital cost of the proposed system using past experience combined with site investigations. The material cost estimates were based on current supply prices and a 2% inflation rate. Centra allowed for a 15% contract labor and material contingency and added an additional 1% to the contingency figure for interest during construction. The 15% overhead allowance included 10% for engineering and construction overhead, 4% for administration, and 1% for overhead contingency.

Total project costs, including the cost of attaching customers for the first ten years of the project, are estimated by Centra to be \$7,796,285 as follows:

Transmission plant	\$4,441,350
Distribution plant	1,443,940
Overheads, expenses and other	969,347
Contingency allowance	941,648
	<hr/>
	\$7,796,285
	<hr/>

Centra performed a sensitivity analysis whereby the capital costs were calculated using an alternate design scenario. If the transmission system was designed to accommodate 100% of the potential customers within the Communities plus a 20% growth factor, and 50% of the potential rural customers plus a 10% growth factor, the capital costs would reduce by \$650,826 to a total of \$7,145,459.

8.0 The Franchise Agreements

On March 11, 1998, Rockwood gave first reading to its By-Law 10/98 authorizing Rockwood to enter into a franchise agreement with Centra to distribute natural gas within the entire Municipality. Centra currently holds franchise agreements with Rockwood giving Centra exclusive rights to provide gas service to that portion of Rockwood in and adjacent to the communities of Stonewall and Stony Mountain. The proposed franchise agreement would grant Centra exclusive rights to distribute gas to the entire municipality of Rockwood and would consolidate and replace the existing franchise agreement. Centra proposed that currently connected customers within the existing franchise areas of Rockwood would not be required to pay the surcharge, but new customers would be subject to the proposed surcharge.

Woodlands gave first reading to its By-Law 2380/98 on March 10, 1998, and Teulon gave first reading to its By-Law on March 23, 1998, both by-laws authorizing new franchise agreements with Centra.

Centra testified that all three of the proposed franchise agreements are consistent with the generic form of franchise agreements most recently approved by the Board. Second and third reading of these By-Laws will be sought from each of the Municipalities following Board approval of the proposed franchise agreements.

9.0 The Feasibility Test

9.1 Customer Attachments and Annual Volumes

Customer data used in the feasibility test was developed using survey data from 1994 for Teulon and from 1997 for the remaining communities. Centra submitted that the six Communities have 717 potential residential customers and 122 potential commercial customers, a total of 839 potential customers. Potential customers for purposes of the feasibility test are existing occupied residential and commercial premises only. Mobile homes, vacant homes, and dwellings from future developments are not included as potential customers.

For purposed of the feasibility test, Centra assumed 540 residential attachment at rates of 25% in year one, 50% by year five and 75% by year ten. Centra assumed commercial attachment rates of 50% in year one, with additional attachments at 5% per year to year 10, which represents 90% of total potential commercial customers, or 101 establishments. For purposes of the feasibility test, Centra assumed that there would be no further customer conversions beyond year 10.

Centra defines a sign up as a customer who has completed and signed a service Application and has made the required customer contribution. As at the hearing date, 134 residential and 31 commercial customers had signed up for service.

During the hearing, Centra indicated that electricity is used as the primary energy source by 618 of the 717 potential residential customers in the Communities. Oil is used by 52 homes, propane by 4 homes, and wood by 3 homes. Fourteen homes use a combination of electricity and wood, electricity and oil, or electricity and propane. Centra has not determined whether

the customers using electricity have forced air or baseboard heating systems. Ninety-six of the 122 potential commercial customers use electricity as the primary energy source, 7 use oil, 4 use propane, and one uses wood.

Centra continues to use an average annual consumption of 2,832.8 cubic meters for each residential premise to calculate the annual residential load, which includes both space and water heat.

Commercial loads were estimated by one of three methods. Where a record of existing energy use was available, Centra converted the annual alternate fuel usage into natural gas equivalent consumption. Where such information was not available, Centra used existing equipment data, which indicates thermal output. This data, when multiplied by the expected annual hours of use, yields estimated annual natural gas use. Where no other information was available, Centra estimated consumption by using an estimate of necessary load based on square footage of an existing dwelling. Centra indicated that while individual contact had been attempted for all 122 potential commercial customers, actual billings were used to estimate consumption for 8 customers, the equipment output method was used for 70 customers, and 44 customers used the square footage method.

The potential customer counts, the customer attachment assumptions, and the annual volume estimates used in the feasibility study are summarized in the following table:

	Customer Attachments			Total Potential Customers
	Year One	Year Five	Year Ten	Total
Residential				
Residential customer attachments	144	360	540	717
Percent of total potential	20%	50%	75%	
Percent of total conversions	27%	67%	100%	
Annual volumes (10 ³ M ³)	408	1,020	1,530	
Commercial				
Commercial customer attachments	64	91	101	122
Percent of total potential	50%	75%	90%	
Percent of total conversions	63%	91%	100%	
Annual volumes (10 ³ M ³)	911	1,366	1,641	
Total				
Total customers	208	451	641	839
Total annual volumes	1,319	2,386	3,115	
Effective annual volumes	660	1,512	3,091	

9.2 Other Feasibility Test Costs and Forecast Revenues

Centra provided feasibility test results using the 1998 weighted average cost of gas ("WACOG"), which is consistent with previous Board direction. Centra's feasibility test assumptions, in respect of the other costs, are as currently approved by the Board, and are consistent with Centra's most recent applications. Centra used a discount rate of 8.893%, the overall rate of return currently approved by the Board.

Centra assumed that only customers from the Small General Service Class ("SGS") and Large General Service Class ("LGS") will be attached in Phase I, and calculated the base revenue stream by applying the currently approved base rate contained in Order 165/98, dated December 22, 1998.

9.3 Feasibility Test Results

Centra's feasibility test assumptions are consistent with Centra's most recent applications. The feasibility test uses a 30 year net present value ("NPV") calculation, with an additional requirement that the fifth year revenue to cost ratio be no less than 1.00. The revenue to cost ratio for this project in year five is 1.04.

The feasibility test results in required contributions from third parties of \$7,243,831. Centra's maximum investment in accordance with the Board approved feasibility test is \$552,454. Centra's investment is determined so that there will be no undue cross-subsidization of the expansion customers by its existing system customers.

9.4 Conversion Costs and Potential Savings

During the customer sign up campaign, Centra provided interested parties with information that indicated a range of natural gas conversion costs for electric baseboard, electric forced air, propane and fuel oil heating systems. Centra also recommended that all prospective customers obtain quotes from qualified heating contractors for conversion costs before making the customer contribution. Centra used the same cost base used in other recent expansion marketing and information campaigns and indicated that conversion costs for residential premises range from \$200 for propane systems up to \$5,200 for electric baseboard systems. Conversion costs vary widely and can be significantly higher for commercial and agricultural customers. Centra indicated that energy savings information given to potential customers by Centra does not quantify pay back periods to include conversion costs. In respect of residential consumers, Centra is reluctant to provide a calculation of pay back periods, contending that there are many individually factors which would be almost impossible to quantify in a generic manner. These include the amount of energy consumed, type of energy being replaced, type and age of equipment being replaced, individual

installation requirements, whether or not to include municipal tax increases, individual financing circumstances, and whether or not to include any increase value in property as a result of obtaining natural gas service. Centra also considered that the larger operators were more sophisticated and would certainly consider conversion costs prior to deciding to convert to natural gas.

Centra continues to provide estimated cost savings to potential customers using base sales rates rather than current as-billed rates, without considering any rate changes throughout the course of the project. Centra's position is that the base sales rate may be either higher or lower than the billed rates because of temporary rate-riders and other factors, but is the correct rate to use for calculating potential cost savings. In addition, future rate changes cannot be predicted in the feasibility test and in estimating average annual energy costs, and are therefore not included.

10.0 Funding Arrangements

10.1 Federal Funding

A Federal funding agreement with ING was, at the time of the hearing, being amended and finalized. The funding, provided through the Canadian Agricultural Infrastructure Project "CAIP", an initiative developed to replace the Crow Rate Subsidy, provides for 29.3% of the total project costs to a maximum of \$2.35 million, plus \$50,000 to be used for administrative, environmental assessment, public information and program evaluation costs. The funding agreement expires on March 31, 2000 and references a draft application dated May 1998 instead of the December 18, 1998 application before the Board.

A press release by the Federal government regarding the funding agreement indicates that \$1 million of the \$2.35 million funding was to be allocated to the communities of Arborg and Riverton and \$500,000 to Fisher Branch. Extension of natural gas service to these three communities is not, however, included in this Application. Centra and ING submitted that these communities have formally agreed to give up their share of the Federal funding. At the hearing, the evidence of Centra and ING did not reconcile with the documentation filed with the Board. ING indicated it would seek an amendment to the Federal funding agreement as well as additional municipal resolutions from the communities of Arborg, Riverton and Fisher Branch in an attempt to clarify that Stage 1, Phase I and II are entitled to the full amount of Federal funding covered in the agreement.

On May 27, 1999, ING filed a copy of amendment Number 1 of the "Canada - Interlake Natural Gas Co-op Ltd. Agreement on Natural Gas Infrastructure" as directed by the Board. The amendments to the agreement revised the estimated capital cost of "Stage I - Interlake" to \$7,000,000, and defines the proposed works to be funded under this agreement as "Stage I

- Interlake.” Therefore, the amended Federal agreement includes the six communities and surrounding rural areas, but excludes Arborg, Riverton and Fisher Branch.

10.2 Provincial Funding

ING and the Provincial government have an agreement in principle for total funding of \$2.35 million for the proposed project. ING stated that the funding will be used for the construction of the Stage I transmission line which will also have capacity for future rural expansion. As of the date of this Order, the Provincial funding has not yet been confirmed or finalized. Both ING and Centra stated that the Provincial funding arrangements would be similar in structure to the Federal funding agreement and would be based on a percentage of the total project cost. However, no signed agreements have yet been provided to the Board.

10.3 Municipal Funding

The municipal governments in Rockwood and Woodlands have proposed a general levy increase, rather than a local improvement district levy, to raise the required municipal funding for this project. Rockwood would impose a mill rate increase of up to 1.3 for 15 years. Woodlands would impose a mill rate increase of up to 2 for 20 years. ING submitted that it would be difficult to assess the increase as a local improvement because of the difficulty in defining the local improvement boundaries, as both the Communities and the surrounding rural areas will all be eligible for access to gas once Stage I is complete. The municipalities also submitted that a general levy is appropriate because there are benefits from the project that accrue to the municipalities and all of its residents.

The total municipal funding is estimated to be \$4,247,465, with Rockwood’s contribution estimated at \$2,240,068, Woodland’s at \$1,516,060 and Teulon’s at \$491,337.

Approximately 96% of the municipal funding for Rockwood is being paid by rural residents,

whereas 83% of the municipal funding for Woodlands is being paid by rural residents, many of whom may not have access to natural gas service.

All incremental property taxes arising from the proposed project will be waived by the parties involved, namely the school divisions and the Provincial government.

The municipalities will obtain the funds through debentures bearing interest costs estimated at 8%. The debentures will be funded by the mill rate increases. ING testified that an interest rate as low as 6% could be obtained by the municipalities at this point in time.

Approximately \$2,035,634 of the total municipal funding will be set aside for Phase I cost overruns, if any, and for funding Phase II of the project.

Centra expects the funding agreements with the Municipalities to be signed immediately after the Federal and Provincial agreements have been executed. Centra has further stated that construction would not commence until all funding agreements are appropriately signed and properly executed.

10.4 Connection Fees

A portion of the project funding will come from a sign up fee of \$500 from each urban residential customer, \$750 from each rural residential customer, and a fee determined on annual consumption from each commercial customer. It is proposed that connection fees will be collected by ING and forwarded to Centra. It is also proposed that connection fees from the school divisions within Rockwood and Woodlands will be waived as these organizations are also funding partners. During the hearing, ING took the positions that it is not carrying on the activities of a public utility, and therefore the connection fee schedule did not require approval by the Board.

10.5 Funding Summary

A summary of the sources of funding for the proposed project is as follows:

	Woodlands	Rockwood	Teulon	Total
Number of total potential customers	<u>299</u>	<u>161</u>	<u>379</u>	<u>839</u>
Number of converted customers after 10 years	<u>266</u>	<u>119</u>	<u>296</u>	<u>641</u>
Contribution from increased mill rate	\$ 1,241,072	\$ 1,800,763	\$ 353,374	\$ 3,395,209
Contribution from pipeline taxes	274,988	439,305	137,963	852,256
Maximum contribution	\$ 1,516,060	\$ 2,240,068	\$ 491,337	4,247,465
Contribution/converted customer	\$ 6,708	\$ 18,824	\$ 1,660	
Individual customer connection fees				332,000
				\$ 4,579,465
Deferred for cost overruns, if any and Phase II contribution				2,035,634
Net/Municipal contributions			\$ 2,543,831	
Federal contribution, maximum				2,350,000
Provincial contribution, maximum				2,350,000
				\$ 7,243,831
Centra net investment				552,454
Total estimated project cost				\$ 7,796,285

11.0 Surcharge

Centra requested that a portion of the project capital cost be funded by a rate surcharge. The surcharge is a new concept developed in recognition that the taxpayers' tolerance for a general tax increase was likely limited to two mills, and connection fees had to remain low enough to encourage customers to convert. It is proposed that the surcharge be \$0.0197 per cubic metre for SGS customers and \$0.01498 for LGS customers which is equal to 10% of the current commodity portion of the sales rate. The surcharge is to remain constant, even though the commodity portion of the sales rates will likely change over time. The surcharge is a form of customer contribution that reduces the required initial outlay of the consumer and adds a further user pay aspect to the rate structure. As a result of the surcharge, the residential and commercial establishments that connect and consume natural gas will pay a higher portion of the project costs than those who do not convert.

The actual dollars generated by the surcharge will vary depending on each customer's annual consumption. Based on projected volumes, Centra estimates that approximately \$556,000 will be generated by the year 2019, which has a net present value of approximately \$250,000. Centra proposes that the surcharge remain in effect for the earlier of 10 years from the date a customer connects to the system, or December 31, 2019, regardless of the actual amount of monies generated.

12.0 The Roles and Responsibilities of ING and Centra

12.1 The Roles and Responsibilities of ING

In the future, ING, in conjunction with Centra, will continue with the implementation of its mandate to expand the availability of natural gas within specific areas of the Interlake. To this end the Interlake Development Corporation has assigned a full time person to ING to pursue this objective. ING's role will be primarily to administer and co-ordinate the various funding agreements and to assist Centra in obtaining definitive franchises and crossing agreements and customer funding commitments. Other responsibilities of ING will be to communicate and explain the detailed business plan to all interested stakeholders, to implement marketing plans and to collect customer connection fees and remit to Centra, and to formulate the terms under which natural gas would be extended to the remaining areas of the Interlake. ING will not be directly involved in any construction or post construction clean-up activity, but will continue to monitor project costs, feasibility test actual results, customer sign-ups, "true-up" calculations, and impacts of actual results on funding arrangement terms and conditions.

12.2 The Roles and Responsibilities of Centra

In the future, Centra will continue to be responsible for conducting all feasibility tests, including capital, operating and maintenance cost estimates and incremental revenues and system designs, in accordance with accepted industry standards and applicable specifications. It will also fall to Centra to formally obtain necessary crossing and franchise agreements, environmental and regulatory approvals prior to constructing, inspecting and operating any portion of the necessary facilities. It is proposed that Centra own and operate the entire system, which would include responsibility for billing, collection, customer service and system maintenance, all in accordance with Centra's approved Terms and Conditions of Service, Standard Practices and emergency operating procedures.

During the pre construction period, Centra's primary contact for project design, feasibility, financing, construction, and marketing was ING. During the construction period, Centra will work directly with the municipalities and the town on construction matters and customer sign-ups. In the post-construction period Centra will work directly with the municipalities to finalize any construction clean up and restoration that may be required. ING will continue to monitor the project costs, feasibility, sign-ups and true-up results.

12.3 Joint responsibilities

The joint responsibilities of Centra and ING include:

- presenting and explaining the business plan and project to the Municipal Councils, School Boards, Community Development Corporations, the Chambers of Commerce, and residential, commercial and agricultural customers;
- communicating to all stakeholders;
- developing and implementing local marketing plans;
- negotiating and obtaining appropriate funding agreements;
- seeking the support of all levels of government for the project; and
- formulating the terms under which natural gas would be distributed in the Interlake.

Centra is required to recalculate the required level of contribution on or about March 31, 2001 and again on or about June 30, 2005. ING will be responsible for funding requirements related to cost over-runs and deficiencies in customer signups. Conversely, ING will be entitled to a refund of contributions if project costs are less than projected in the feasibility test.

13.0 Project Benefits and Risks

Centra submitted that the proposed project would result in significant benefits for the area. Benefits include the addition of valuable infrastructure that will encourage economic development and associated employment, and energy savings for residents and business owners. Although there are pockets of low housing density and limited agricultural and commercial activity, in Centra's opinion, the business risks of this project are low. It is financially feasible using the 30 year NPV test and has a 1.04 revenue to cost ratio in the fifth year. In Centra's view, volume and revenue estimates are reasonable and attainable, cost estimates are reasonable and appropriate, and overheads and contingencies have been included to minimize the risk of cost overruns. In addition, Centra's local knowledge and experience in the existing adjacent franchise area will reduce risk. In Centra's view, the level of commitment by ING and the level of funding from all parties will ensure the project's success.

14.0 Possible Acquisition of Centra by Manitoba Hydro

On March 11, 1999, Manitoba Hydro announced its plans to acquire Centra. As a result of the proposed acquisition, there may be changes to the feasibility test as Centra may change from a subsidiary of a taxable public company to a subsidiary of a non-taxable Crown Corporation. This change in ownership may have an impact on a number of components of the feasibility test including corporate income taxes and rate of return. During the hearing, Centra advised that, at this time, it is uncertain what effect this transaction might have on the feasibility test, and the transaction should have no bearing on the decisions of the Board on this matter.

15.0 Intervenor's Positions

Darrien Briggs

Ms. Briggs voiced concerns that the residents of the area would be subsidizing Centra and other commercial enterprises in the Interlake. She questioned the fairness of all residents paying additional taxes for a commodity that may not be available to some. She also questioned whether there would be sufficient funds available for Stage II if the funding allocated to the Stage II communities is utilized in Stage I. She was also concerned that the Provincial funding has not yet been secured. She suggested that, contrary to the statements of ING, the deadline for the Federal funding could be extended. Ms. Briggs noted that a surcharge is necessary to make the initial stage of the project feasible, even without considering the costly additional rural development.

Ms. Briggs expressed her displeasure that the municipalities and ING did not have public hearings or a general vote to obtain taxpayer approval for the funding methodology. She was concerned that there has been no analysis of the potential economic development that might be attracted as a result of natural gas expansion. In addition, no feasibility test was completed for Phase II, and no alternate financing options were assessed during the project development process. She was concerned that there was no contingency plan if the Application is not approved. She also expressed concern regarding the determination of connection fees.

Ms. Briggs submitted that although the project would provide an energy alternative, it was not an essential service. In addition, she noted that hydroelectric power is a renewable resource whereas natural gas is a non-renewable resource. Ms. Briggs stated that providing benefits to hog operations would only increase the pollution in the area, and that the area must build on the strengths of rural life rather than trying to become urbanized. She was of

the view that this project was all about economic development and ignored the social and cultural aspects of life in the Interlake.

Ms. Briggs recommended that the project be delayed until an alternate source of funding was obtained that would replace the proposed municipal mill rate increases, and a referendum held in the municipalities prior to proceeding any further with the proposed project.

CAC/MSOS

CAC/MSOS submitted that this hearing was unprecedented in four ways being: (1) a significant demonstrated concern by the public about the merits of the Application; (2) the number of active, focused and concentrated presenters and Intervenors; (3) the divisiveness among the residents resulting from the Application; and (4) technical precedents related to the requested surcharge and the ING/Centra alliance.

CAC/MSOS contended that statutes require the Board to find that the franchise is necessary and proper for the public convenience and properly conserves the public interest.

CAC/MSOS argued that neither Centra nor ING have proved the feasibility of the project, because there is no financial information concerning Phase II, or that there is a necessity for an alternative source of energy in the Interlake, or that there is any link between the availability of natural gas and enhanced economic development.

CAC/MSOS argued that the mood of the community takes issue with the project feasibility, the structure of the funding arrangements, the lack of public consultation, and the role of ING. CAC/MSOS further submitted that the project feasibility test assumptions regarding customer attachments and system design is not reasonable.

CAC/MSOS contended that 60% of the residents who will experience a mill rate increase related to the expansion project will not have access to natural gas, and the Board should not

allow residents who will not receive gas to subsidize those who will have the service. An additional inequity would result because customers in the existing franchise area of Rockwood will be required to pay the general levy, thereby subsidizing new expansion customers.

CAC/MSOS suggested that alternatives such as local improvement levies should be considered for funding the municipal portion of the project. CAC/MSOS also questioned why the municipalities were not designated as local improvement districts which would have required public hearings to review the project funding. A second option is the concept of a partial general levy, with an additional local improvement levy for those customers who will receive the service.

CAC/MSOS submitted that the original Federal funding arrangements allocated specific funds for the provision of natural gas service to Riverton, Arborg, and Fisher Branch. All three councils passed resolutions authorizing ING to contract with Centra to bring natural gas to these communities. CAC/MSOS submitted that the current Application is in contravention of those resolutions, as the funds allocated to the three communities are to be used for the Stage I Project. CAC/MSOS suggested that, notwithstanding any Federal endorsement, the Board require new resolutions from the three communities, which would grant ING the right to utilize these funds for Stage I.

CAC/MSOS wondered why the Provincial funding agreement is not yet in place and recommended that any Board approval be subject to receipt of the signed Provincial funding agreement. CAC/MSOS also cautioned the Board to carefully consider the consequences of adopting the rate surcharge proposal. CAC/MSOS argued that the surcharge would result in a two tiered rate system, and would result in unduly discriminatory rates between the customers in the existing franchise area and the proposed franchise area. The adoption of the surcharge would also set a precedent for future applications. The surcharge would, in most

cases, continue to generate revenue for a period of 10 years. To the extent that surcharge revenues exceed the estimated amount, the additional funds would flow to all of Centra's customers. CAC/MSOS argued that the surcharge is a discriminatory rate, which may serve to discourage businesses from relocating to the Interlake area.

CAC/MSOS challenged the arrangement whereby ING would collect connection fees. In CAC/MSOS's opinion, ING is carrying on business as a public utility, and the connection fees require Board approval. Reliance on ING to set the fees allows for the terms and conditions of service to be changed without seeking Board approval.

CAC/MSOS suggested that there is overwhelming evidence that the residents were not given sufficient information on the project or an opportunity to offer feedback or comment.

CAC/MSOS refuted the position of some of the political leaders that the petitions presented at the hearing did not technically comply with the Municipal Act. CAC/MSOS suggested that the local councils have made up their mind to pursue the acquisition of natural gas because of the view that it will stimulate economic growth. In the view of CAC/MSOS, this is a misguided view that ignores the desires of the majority of the residents, and only has the support of the politicians and business owners. CAC/MSOS argued that there is no evidence that natural gas service is needed or wanted by the vast majority of the residents, given the associated project costs. CAC/MSOS also expressed concern that the large number of presenters who opposed the Application is a clear indication that the potential customer attachments assumed by Centra is overstated.

CAC/MSOS submitted that Centra's calculations respecting conversion costs, energy savings and pay back periods are based on outdated information and results in misinformation in terms of actual pay back periods. CAC/MSOS argued that either all or no information in respect of pay back periods should be included in a marketing campaign, pursuant to Order 123/98.

CAC/MSOS also expressed the opinion that ING might be acting ultra vires with regard to its incorporating documents. ING decided, without amending its original by-laws or articles of incorporation, to cease being a consumer Co-op and switch to a not-for-profit Co-op with members restricted to municipal corporations. The original by-laws stated that there were to be 16 directors. Currently there are only eight directors which does not represent a quorum. CAC/MSOS opined that there were numerous other instances where ING breached its own by-laws and had entered into contracts outside its mandate.

CAC/MSOS also expressed the view that the announced pending acquisition of Centra by Manitoba Hydro could have impacts on the feasibility test which should give the Board some cause to be cautious.

CAC/MSOS argued that Centra requires two franchise agreements, at a minimum, if it wants to grandfather the existing customers in Stony Mountain and Stonewall. These customers should be able to rely on past terms and conditions of service which should be formalized in a separate agreement. CAC/MSOS also questioned whether Rockwood needed approval under the Greater Winnipeg Gas Distribution Act to repeal or amend the existing Rockwood franchise agreement.

CAC/MSOS concluded by suggesting that the basic flaw in this Application is the imbalance in the funding scheme. The incompleteness of the Application is reason enough for the Board to deny the Application. However, should the Board decide not to reject the Application outright, the Board should, pursuant to Section 66 of the Act, hold a vote "to determine once and for all whether or not this Application should go forward."

ING

ING informed the Board that the commitment to the funding of this project for each level of government remains firm, and that signed agreements are expected within two weeks. ING cited definitions of a public utility in the Act which, in their view, demonstrated that only Centra, being the operator and delivering the service, is the public utility, and ING is not a public utility. ING also argued that the issues of public convenience and public interest are indistinguishable. By not allowing natural gas in the Interlake, while other neighboring municipalities have gas service available, puts the residents of the Interlake at a disadvantage. This, in ING's view, clearly demonstrates that the Application meets both of the tests of public convenience and public interest.

ING contended that the CAC/MSOS argument that ING has acted in an ultra vires way was subsequently withdrawn by CAC/MSOS, and, in any event, the Board has no legal jurisdiction to consider the matter. ING also suggested that the Board give little, if any, weight to the presenter who took issue with Centra's approach and calculations of conversion costs and payback periods, because it was not entered as evidence and not subject to cross-examination.

ING's major concern in this proceeding is the perception that the Application is "business versus the individuals; about the big guy versus the little guy." ING argued that it is in fact about the issue of present and future jobs, about having the chance to remain and work in the area and to see the area grow. ING suggested that the common thread throughout the proceeding is that the opposition expressed to the Board is about taxes, and not about bringing natural gas to the Interlake. The ING position is that municipal taxation is clearly within the authority of the municipal councils, pursuant to the Municipal Act, particularly Section 164(1), and is irrelevant to project feasibility, or to public interest. ING expressed their concern about allegations made during the hearing that municipal officials engaged in some devious plot in this matter. ING submitted that these officials acted properly and in

accordance with the Municipal Act. In respect of the allocation of the Federal funds, ING submitted that the Board should not consider that the funds belong to Arborg, or Riverton, or Fisher Branch, but only to the Government of Canada, and that the agreements entered into by ING with the Federal government must be respected by the Board.

ING urged the Board to respect the right of municipal officials to make decisions that may not be universally popular. This Application is founded upon a vision for the future to ultimately see expansion of natural gas throughout the Interlake, and upon lawful decisions of municipal councils, taken at some political risk. In ING's view it is not the Board's role to undermine these lawful decisions. ING also requested the Board to respect ING's efforts to stage the project as ING deemed fit, to determine the appropriate funding balance, and to negotiate funding agreements with the governments.

In summary, ING requested the Board to approve the Application because it is in the interest of the residents of the Interlake. The Board must be satisfied that no one is inappropriately burdened with cost. This Application is, in ING's view, one which exemplifies co-operation and sharing and selflessness. As well, ING suggested that the Municipal Act does not contemplate the Board having the right, of its own volition, to make an order compelling a municipal vote in this matter.

Municipal Gas

Municipal Gas stated that it could offer customers an option with regard to the supply of natural gas at additional savings. Municipal Gas encourages the development of natural gas infrastructure wherever that may be and supports the Application before the Board.

Mark Van Solkema

Mr. Van Solkema, on behalf of himself and his father, stated that the Application should be rejected. He chastised the area councillors for their lack of public consultation. He stated that if funds for Stage I and Stage II are being included in this Application, the feasibility test should include both Stage I and II. Only then should the municipal funding be committed. Mr. Van Solkema questioned the ability of the municipalities to attract new business to the area with the high taxes that will result from this project along with the additional surcharge. He submitted that there is no long-term plan to attract business to the area. Mr. Van Solkema noted that there are two large businesses within the existing Rockwood franchise area that have yet to convert to natural gas. He requested the Board to require Centra to monitor the valve inter-connecting the existing Stonewall main to determine if any benefit will accrue to the residents of Stonewall and ensure that any costs related to these benefits be excluded from the Application.

Sam Pshyshlak

Ms. Pshyshlak expressed a number of concerns with this Application. She questioned the "piecemeal" approach, project feasibility, discriminatory surcharge and connection fees, municipal funding arrangements, lack of public consultation, contradictions in various aspects of the testimony, and the disregarding of public opinion by the elected municipal officials.

As part of her intervention, Ms. Pshyshlak submitted petitions at the hearing that, according to her evidence, represented 3,058 single dwellings in the subject area. She also pointed out that the existing customers in Stony Mountain and Stonewall would in fact subsidize the new customers because the existing customer would be required to pay the general municipal levy to fund a service which they already have, and are paying for. In her view, the project is supported by the municipal politicians, school divisions, Chambers of Commerce, economic

development organizations, and agricultural businesses, and is opposed by “ordinary taxpayers”, which has resulted in two distinct and divisive elements within the communities.

Ms. Pshyshlak is of the view that because the originally contemplated connection fees have increased, the potential sign ups would be less than estimated. She further suggested that because schools in both Evergreen and Interlake #21 Divisions have or will have connection fees waived, they are clearly receiving preferential treatment, contrary to Section 82 of The Public Utilities Board Act. She questioned where a shortfall in connection fees, because of the waiver, would be found to generate the estimated contribution required.

Ms. Pshyshlak pointed out the confusion by Centra’s witness during the hearing in respect of connection fees. Centra initially indicated that there would be no connection fee waiver, but this position was later recanted by the same witness. This led Ms. Pshyshlak to question the extent of control ING exercised over Centra, and wondered about the extent of Centra’s actual knowledge of ING’s processes, and the true nature of the Centra/ING relationship. She also expressed concern over the fact that much of the documentation presented at the hearing referred to the original seven stage Interlake expansion project, and not to the reduced two stage plan, which rendered the Application somewhat confusing.

In respect of project feasibility, Ms. Pshyshlak questioned how a project could be deemed to be feasible when “...Centra must have \$30 in outside contributions for every \$1 they are investing?”, and a total contribution of \$7,250,000 is necessary, before the surcharge contribution of an additional \$250,000. She urged the Board to consider the feasibility as “more than just numbers on paper, it is all about people and benefits to people and whether people want and are willing to finance a project.”

Ms. Pshyshlak also contended that by grandfathering the customers in the existing franchise area, Rockwood would be split into three groups of citizens: those who will pay no

surcharge, no hook-up fee, and pipeline taxes for 25 to 20 years; those who will pay no surcharge or hook-up fees but will pay pipeline taxes, and those who will pay all three levies. She contended this was a case of clear discrimination.

Ms. Pshyshlak also suggested that Riverton, Arborg, and Fisher Branch may not have been fully aware of the consequences of agreeing to allocate their Federal contributions to Stage I, and requested that these communities be asked to pass resolutions to clarify the situation, especially since Fisher Branch has withdrawn from the project.

In summary, Ms. Pshyshlak asked the Board to deny the Application. Should the Board not deny the Application, Ms. Pshyshlak requested the Board to invoke Section 66 of The Public Utilities Board Act to require a vote of the taxpayers. She proposed that there be strict conditions on the vote, and supplied the Board with a suggested wording for the ballot.

16.0 Presenters' Positions

The Board heard from a number of presenters during the hearing. The presenters were, for the most part, local residents and business owners. The Board appreciates the time and effort taken by these individuals to present their views. The subject matters addressed by the presentations include:

- The municipal process
- The costs and benefits of the Application
- The funding arrangement
- The proposed project design
- The proposed mill rate increase
- The option of a user-pay system
- The communication between the municipalities and the resident taxpayers
- The expansion surcharge
- The structure and role of ING
- The community unrest created by this Application
- The future of the local economy
- The inability for the community to retain population
- The potential for job creation

Those in favor of the Application cited the need to create economic development and provide energy options for current and future businesses. These presenters argued that without natural gas service, the Interlake is at a disadvantage with respect to attracting new industry to the community. By reducing energy costs, businesses in the area would be able to create jobs. By increasing the number of job opportunities, the area will be able to retain its young people and expand its tax base.

Most individuals in opposition to the Application indicated that they were not opposed to natural gas service. However, many expressed opposition to the fact that residents and businesses who did not want natural gas service or were outside of the proposed service area would be required to pay for the service through increased property taxes. Many people in opposition to the Application also criticized the municipal process, the lack of

communication between the residents of the communities and the local governments, and the lack of opportunity for the residents to express their views and opinions to the municipal governments.

Brian Baker

Mr. Baker feels that the information being circulated by Centra is not accurate and that the costs of conversion are much higher than what Centra states. The information used to calculate the conversion savings may not be appropriate for the area.

The specific comments made by the presenters are briefly summarized below.

16.1 Presenters Who Supported the Application

Michael Benn

Mr. Benn, manager of Canadian Greenfield Forages, supported the Application and stated that natural gas would be a benefit for the industry and farmers in the area, and would encourage increased opportunities for employment, which would enable young people to remain in the community.

Bruce Bond

Mr. Bond, from Teulon, supported the Application, indicating that a number of businesses in the area that would benefit from the availability of natural gas. These businesses would employ a large number of people from Teulon and the surrounding areas. He expressed his concern that many young people are moving out of the area. This project would also stabilize our tax base. Mr. Bond also expressed concern that the people who signed the petition did not fully understand the project.

Bonnie Boon

Ms. Boon, on behalf of the Warren & District Chamber of Commerce, supported the Application. She stated that natural gas will attract more industry, more business, and more residential development which will provide jobs for the youth of the rural municipality of Woodlands, and broaden the tax base.

Diane Mae Boychuk

Ms. Boychuk supported the Application but was dissatisfied with the proposed increase in taxes and the lack of public consultation. She contended, however, that this was not enough to outweigh the potential benefits to the community. She believes that it is not within the Board's mandate to consider complaints based on project financing at a municipal level.

Marty and Rachelle Brown

Mr. and Ms. Brown are turkey producers in the Gunton area who supported the Application. Natural gas will allow them to be competitive with other farms in the areas that have natural gas, and will help existing businesses to grow as well as help in attracting new businesses to the area.

Curtis Charison

Mr. Charison is the owner of Charisons Turkey Hatchery in Gunton. He supported the Application and pointed out that similar opposition was voiced when electrical service was first brought into the area. Without natural gas, it is increasingly difficult for the area businesses to remain competitive or for the region to attract new business. Therefore, the tax base cannot be increased. He also questioned the validity of the petitions, and felt that residents must look at the additional tax as an important investment in the future rather than a tax burden.

Barry Creaser

Mr. Creaser supported the Application and was of the view that the availability of natural gas will help retain services such as schools, hospitals, fire departments, local business and industry. He indicated that the increase in taxes is offset by the savings he will receive from using Natural Gas.

Allister B. Davidson

Mr. Davidson, on behalf of himself and his family, supported the Application and cited the environmental benefits of natural gas.

Chris Dawson

Mr. Dawson, representing the Teulon Community Development Corporation, supported the Application and feels that natural gas will create opportunities for business and his children's future. He believes that natural gas would foster healthy competition, and expressed concern that something must be done to address the shirking tax base.

Jeff Epp

Mr. Epp, on behalf of the Arborg/Bifrost Community Development Corporation, supported the Application and stated that natural gas was identified by many stakeholders as a need. A study was done which provided recommendations regarding opportunities for development. One of the recommendations was to promote rural gasification. A survey was done which indicated that the local businesses consider that natural gas would benefit the community.

Doug Erdman

Mr. Erdman, representing NEICOM Developments of Riverton, supported the Application because of the definite cost savings from natural gas. Natural gas will increase land values and a larger tax base will contribute to increased social infrastructure.

Melvin Eyolfson

Mr. Eyolfson, Chairman of the District 10 Keystone Agricultural Producers, thanked Les Jacobson and Allan Chambers who helped with the preparation of the presentation and expressed his support for the Application. Natural gas will help the development of secondary processing of agricultural products. Community facility user fees will decrease and the savings will accrue to the residents. Lower energy costs would be realized by grain and livestock farmers, as well as manufacturing plants and would stimulate additional employment as well as reduce prices of services required by farmers.

Lorne Floyd

Mr. Floyd, on behalf of the Arborg Chamber of Commerce, supported the Application and stated that ING has struck a fair and just deal with the three levels of government. All areas of business and government will be able to realize savings from conversion to natural gas. Manufacturing activities and value-added processing would be encouraged in the area.

Harold Foster

Mr. Foster on behalf of the council of the R.M. of Bifrost, supported the Application and stated that natural gas service will be a tremendous boost for the Interlake area. Energy bills will decrease in private homes and public buildings. Natural gas will increase economic development, which in turn will create jobs.

Ruth Anne Furgala and Joanne King

Ruth Anne Furgala, the Chair of Evergreen School Division and Joanne King, Chair of the Maintenance and Transportation Committee for Evergreen School Division, supported the Application, in principle, pending solid financial figures. Ms. King stated that the division

would be able to save approximately \$40,000 to \$45,000 per year as a result of using natural gas.

Gord Green

Mr. Green, on behalf of Miami Beach (1997) Ltd., a campground in the rural municipality of Woodlands, supported the Application. He would be able to offer the 100 plus seasonal trailer sites the option of gas barbecues and gas heat. He plans to expand the campground in the next few years and feels that the residents should have the choice to have natural gas service.

Claudette Griffin

Ms. Griffin, representing the Teulon and District Chamber of Commerce, supported the Application and stated that the Chamber firmly believes that having natural gas is crucial to creating an environment that is conducive to development. She expressed her concern regarding the trend in the decrease in school enrolment, and stated that having natural gas available can provide a competitive infrastructure to industries that are looking for places to locate in rural Manitoba. She stated that natural gas will increase the value of every resident's home. Natural gas would also benefit the community as a whole.

Irvin Helwer

Mr. Helwer, of Interlake Potato and Canadian Greenfield Forages, supported the Application and stated that his business is growing and he needs natural gas in order to expand. He believes that the councillors have worked hard to bring this deal to the area, and the surcharge is an appropriate mechanism to assist in bringing natural gas to the community.

Howard E. Hilstrom

Mr. Hilstrom, Member of Parliament for Selkirk – Interlake, supported the Application. This alternative energy source will provide added options when making personal decisions for the average household, and economic development decisions for business.

Ted Hodgkinson

Mr. Hodgkinson, mayor of Teulon, supported the Application and stated that one would be hard-pressed to find one person in objection to the Application if we could supply the infrastructure free of charge. Benefits beyond monetary considerations such as a child being able to attend school locally, being able to work locally, the elderly being able to spend their twilight years among their friends in the community, availability of recreational facilities, good streets, a hospital and being able to do business locally should be considered.

Gary and Brenda Hollier

Mr. and Mrs. Hollier supported the Application and have paid their initial connection fee. They believe that natural gas would be a valuable asset not only for themselves but also for the community as a whole.

Carl R. Johanson

Mr. Johanson, President of the Arborg District Agricultural Society, supported the Application. He feels that natural gas will increase economic development, which will result in more jobs and opportunities.

Grant Johnson

Mr. Johnson, a local realtor, supported the Application and has paid his initial connection fee. One of the first questions asked of him when trying to promote a home in Warren is whether

there is natural gas. He believes that natural gas would be a benefit to himself and the community.

A. Johnson

Mrs. Johnson, a resident of the rural municipality of Woodlands and a business person in the Village of Warren, supported the Application and is concerned about the misinformation which is circulating within the community. She believes that the Interlake area, particularly that part closest to the City of Winnipeg, will not develop without natural gas being available to attract business and industry. She expressed concern that too many people can see only the immediate lack of benefit to themselves and cannot look ahead to the future when the benefits of having natural gas available will far outweigh the present costs.

Ron Johnston

Mr. Johnston, representing Paradigm Farms and Arborg Feeds Ltd., supported the Application. He stated that availability of natural gas is important to remain competitive.

George Junkin

Mr. Junkin, on behalf of the RM of Macdonald, supported the surcharge. The current financing arrangement will decrease the necessary contribution from new customers which will make the conversion to natural gas feasible. This will also help to sustain the existing agricultural, business and residential development in the municipality, provide and encourage growth in the agri business sector of the municipal economy, as well as businesses and residential development in general. It will further provide an opportunity to expand the natural gas system throughout the entire municipality by providing access to this valuable resource at the most economical cost possible.

Bert Kindzierski

Mr. Kindzierski, on behalf of the Town of Arborg and his council, supported the Application and submitted that a great deal of time and energy was expended to get Federal and Provincial funding. He cautioned that the area must seize its opportunities or they will be lost. Councillors are consistently being told to be more aggressive if the Interlake is to have equal opportunity to prosper. Natural gas will strengthen the economic sustainability of the area.

Bill MacGillivray

Mr. MacGillivray, President of S.I.R.C.I., supported the Application. People do not want to pay 2 mills on their municipal taxes for a project in which they perceive no value. No one is disputing the hook-up fees, the 10% surcharge, the Provincial and Federal funding, or the fact that natural gas is a cheaper energy source. The residents will save directly on their fuel bills and indirectly through fuel savings obtained by government buildings and public facilities. When an individual's costs are weighed against all the direct and indirect benefits of natural gas, he believes there is value for the tax dollars.

Clayton K. McMurren

Mr. McMurren, past councillor of Rockwood, supported the Application. He feels that natural gas provides an opportunity for the area to continue to grow and prosper. Although people oppose the cost, he feels the potential returns are too great not to go forward. He contends that the people who signed the petition did not understand the Application.

Ed Peltz

Mr. Peltz, the Reeve for the rural municipality of Woodlands, supported the Application and stated that the councillors have considered various funding arrangements and have determined that the one that has been chosen is the best way to proceed. He feels that the

community is worthy of this investment. The councillors are trying to create a competitive edge. He expressed concerns about the ageing population in the area and the need to provide opportunities for its young people. He contends that the petitions circulated in the area are not valid under the Municipal Act and questions the accuracy of the results.

Calvin Penner

Mr. Penner, a hog producer from Argyle and a producer delegate of Manitoba Pork's Interlake District, approved on behalf of the hog producers in the area and the other delegates. He supported the Application. His decision to expand his own operation was made based in part on the assumption that natural gas would be coming to the area. Natural gas may be the catalyst that the Interlake needs to create more commerce, and create a larger tax base that can increase services and decrease taxes. He would be receptive to an increase in the surcharge if this would make it more palatable for the community.

Michelle Salkeld

Ms. Salkeld, on her own behalf and her father, Don Salkeld, President and founder of Northern Goose Processors, and her brother Darren, supported the Application. She stated that the community cannot just look at local competition, but instead must think globally and continue to become more efficient within the global context. Because the population of Canada is not concentrated, it is costly to provide services such as natural gas. She pointed out that over two thirds of the project cost is borne by taxpayers all over the country who will never see the benefits of this project. The contribution being requested from the taxpayers of this region is very little relative to the benefits the community will enjoy. Natural gas will help to create jobs, retain the youth in the area and broaden the tax base.

Stephen Shinnie

Mr. Shinnie, a lawyer in the town of Teulon, supported the Application even though it would not be economical for him to convert to natural gas. He questions the validity of the petition. He points out that many services provided to the community are not user-pay (i.e., health care). He is concerned that the funding will be lost if the Application is not approved.

Leon Vandekerckhove

Mr. Vandekerckhove, Reeve of the rural municipality of Rockwood, supported the Application and believes that there are many benefits to living in this community. Residents have an opportunity to receive a utility that could never be afforded without the co-operation and partnerships of the member municipalities and the Federal and Provincial governments. It is an investment in the future of the area.

Rem Weiss

Mr. Weiss, the President of Teulon Golf Course, member of the Teulon Economic Development Corporation, the Teulon Chamber of Commerce, and the Teulon Rockwood Arena Board, Deputy Mayor of Teulon, and owner of Teulon Super Thrifty Drugmart, supported the Application. He expressed his concern regarding the decrease in the number of young people in the community. With regard to the surcharge, he stated that a small increase today toward the possible expanded tax base in the future would help lessen the tax burden in the years to come. He stated that he respects and understands the concern over increased taxation. However, during the last municipal election in Teulon nearly every voter expressed concern about needing new economic strategies for Teulon, namely natural gas.

16.2 Presenters Who Did Not Support the Application

Bernice Baldwin

Ms. Baldwin opposed the Application and expressed concern about ING's relationship with Centra. She is concerned that the risks and rewards are not being shared equitably. She does not view industrial progress as a benefit to the community.

Ron Chercoe

Mr. Chercoe, on behalf of himself and his father, opposed the Application and stated that people simply cannot afford the additional tax load. The municipal governments have not consulted with ratepayers which they are required to do under the Municipal Act. The funding agreement between ING and the municipalities was improperly executed in that the agreement is dated December 8, 1998, because the former mayor has signed the agreement. The monies for the rural expansion have not been allocated to specific tasks. Therefore, there is a potential for abuse of these funds. As ING does not qualify as a party with whom a municipality may make agreements under the Municipal Act, the formation of ING by the municipalities does not appear to be legal. The overhead costs indicated in the financial feasibility test for 1999 are not 15% of the sub-totalled capital. The franchise agreement between Centra and the rural municipality of Rockwood provides no protection against higher connection fees or the surcharge for customers currently receiving gas service. Current customers must rely on verbal promises that rates will not change.

Adele Chornoby

Ms. Chornoby opposed the Application. She is concerned that people will leave the area due to higher taxes. She stated that natural gas is only one commodity and progress does not depend on one commodity.

Mel Christian

Mr. Christian opposed the Application and stated that the proposed deal gives no flexibility, no ownership, and no user participation to the ratepayers. He feels that residents cannot rely on the hope that this project will attract additional corporations to the area.

Kenneth Emberley

Mr. Emberley, from Winnipeg, opposed the Application. He feels that the project should stand on its own and should not depend on subsidies from the Federal and Provincial governments.

Bill Fleury

Mr. Fleury opposed the Application and expressed concern that Centra is paying a very small fraction of the costs, has no accountability of performance and is at no risk to cover potential losses. A large proportion of the residents of Woodlands have signed a petition that opposes the Application which suggests that there is little support for Phase II of Stage I. The payback period for conversion to natural gas is too long to make conversion a viable option. The Hutterite colonies in Woodlands have signed the petition. Trailer park residents are opposed to the Application, as it is not feasible for them to hook up, but their lot fees will increase due to the increase in property tax. There is an unfair balance between the people who will pay and the people who will benefit. Mr. Fleury suggested that alternative sources

of funding should be considered. There are a number of residents who are not well off and cannot afford this tax increase.

L. and D. Gallant

Mr. and Mrs. Gallant opposed the Application and feel that the farms in the area have to shoulder an unfair portion of the costs. The payback period makes conversion economically infeasible.

Vi Hack

Ms. Hack, from Stony Mountain, opposed the Application and stated that taxes are already too high and there are no services. The proposed Application will result in the higher taxes and only a few will benefit. The councillors have not informed the taxpayers of the decision. Inconsistent information is being given to potential customers. The potential for new business to locate in the area is limited as most of the area is zoned for agricultural use. The petitions indicate the opposition to this project.

Bruce Hogg, Jr.

Mr. Hogg opposed the increase in taxes. He is not opposed to bringing natural gas to the area, but feels that those who do not want the service should not be made to pay for it.

Tom Huffman, Sr.

Mr. Huffman, Chairperson of the Citizens Advisory Committee at Stony Mountain Institution, is concerned that Leon Vendekerckhove and his council have not been open and honest with the people in the community.

John Inkster

Mr. Inkster opposed the Application and expressed concern that, if needed, additional funding must be obtained by ING and the RM's, not from Centra. As a taxpayer, he cannot claim connection fees for natural gas as a tax deduction as farmers can. Natural gas does not make the community healthy and vibrant and an economic boom will not result because of it. The high taxes will hurt the community. Those who want the luxury should pay for it.

Betty Kehler

Ms. Kehler on behalf of herself and her husband, stated that she, as a farm owner north of Teulon, will not benefit from the Application. She is in favour of a user-pay system and would like the community to evaluate the costs and benefits of other energy sources other than natural gas.

Larry LeSage

Mr. LeSage opposed the Application and stated that the Rockwood Council is taking an independent course with no input from the very people who elected the council, and the people who are affected most by the project. The fact that the project relies on major subsidies makes it unfeasible.

Brenda Lesyk

Ms. Lesyk, from Warren, opposed the Application and stated that the proposal does not seem fair, especially since it is unlikely that many of the residents of the municipality will be able to access the service, at least in the near future. She questions the allocation of profit. She feels that the councillors need to be more responsive to their taxpayers and consider the feelings being expressed to them.

Colleen Letkeman

Ms. Letkeman opposed the Application and is concerned that taxes are already too high. Residents will pay additional tax, but not be able to benefit from the service.

Steve MacDuff

Mr. MacDuff, of Stonewall, opposed the Application and feels that the politicians and representatives of ING have not been open and honest when dealing with the public. He expressed concern regarding the need for additional funds if the money allocated to Arborg and Riverton must be given back. The area has high taxes compared to the rest of Manitoba and cannot absorb further tax increases.

James Macko

Mr. Macko, on behalf of himself and his father, John, opposed the Application. He stated that people should not be forced to pay for something they don't want or need. It is unfair that people who can't afford gas should lose their property because they can't afford the tax bill. When one considers the increase in taxes, the payback period for converting to natural gas is unreasonable. The school population will not increase if taxes increase, and natural gas will not guarantee economic growth in the area. He questions the validity of the survey conducted by Centra in 1994. He believes that the petitions were gathered honestly. He expressed his concern that the people of the community did not play a role in the decision making process.

Peter Marykuca

Mr. Marykuca is opposed to the Application. He is concerned that ING's actions when dealing with public have been devious and unlawful.

James and Irene McCormack

Mr. and Mrs. McCormack are opposed to the funding of the project and stated that they will probably never be able to access natural gas. They are concerned that many people will not be able to afford the additional tax.

Bill and Dorothy Myskiw

Mr. and Mrs. Myskiw opposed the Application, stating that they will be paying a lot more in taxes with little or no benefit.

Blaine Myskiw

Mr. Myskiw opposed the Application because as a farmer, the taxes on his house will go up more than he could afford.

Bryan Oliver

Mr. Oliver, a fireman and cattle farmer from Rockwood, opposed the Application and stated that the Centra Application was never mentioned in the last election. Natural gas would not have been able to attract businesses that have located in other regions, as this area is not geographically suitable. All residents of Woodlands would have to pay tax so that only 27% of the population could have natural gas. The service of natural gas would benefit hog farms which would pollute the area. Natural gas is not needed and the costs outweigh the benefits.

Nel Proskurnik

Ms. Proskurnik opposed the way the process is being administered. She expressed her concerns about the high taxes she already pays. She expressed concern that the residents were not involved in the process. She stated that she would not convert to gas because the payback period was too long. She would like to put this issue to a vote.

Kathryn Pshyshlak

Ms. Pshyshlak opposed the Application. If a new franchise agreement with Rockwood is put in place, current Centra Gas customers could be liable to pay larger connection fees and the 10% surcharge. If the current customers are not asked to pay the new rates, an inequitable, two-tiered system is created. There are inconsistencies in the statistics used by Centra when compared to Statistics Canada. She contends that the potential 2-mill increase in the tax rate represents an undue rate impact and therefore the project is not feasible. The funding agreement dated December 8, 1998 is signed by the former major. Resolution 179/8 authorizing the council to sign the funding agreement is dated October 23, 1998, but the council which signed the document was not elected until October 28, 1998. There does not appear to be an authorization for the Federal funds allocated to Arborg, Riverton and Fisher Branch to be channelled to Stage I. She questions the fact that it does not have to be paid back. The resolutions clearly state that the money be directed to bring natural gas to their communities. Taxpayers have not been adequately informed about this Application. Residents should not be made to pay for a service that will only be available to a select few.

Gordon Rajotte

Mr. Rajotte, representing the Philosophy Practice Institute of Manitoba Incorporated and the Selkirk Presbytery of the United Church of Canada, opposed the Application and stated that the status quo may be the best thing in the final analysis. He feels that more time is needed for the residents to analyse the Application and consider other energy alternatives. He points out that we should consider the environmental consequences.

Bill Ridgeway

Mr. Ridgeway, from Grosse Isle, wanted the Application delayed so that additional analysis regarding the potential of the project can be done. He expressed his concern that ING and the community leaders are not communicating effectively with their constituents. He

questioned the statement that the funds allocated to the northern part of the project do not have to be paid back. He stated that natural gas energy is not the most efficient for his purposes.

J. Roberts

J. Roberts opposed the Application and feels that the increase in taxes places an unfair burden on the poor.

Gary Seidel

Mr. Seidel opposed the Application and is concerned that the villages of Lake Francis and Marquette were not considered in the current discussions. Mr. Seidel submitted a petition opposing the current Application, collected from mid January to the beginning of March 1999, representing 62% of the single dwellings in the rural municipality of Woodlands. Only a small portion of the area is projected to receive the benefit. He is not opposed to natural gas, he just feels the users should pay for the benefit of natural gas. He is skeptical that new businesses will be attracted to this area.

Douglas Stamler

Mr. Stamler objected to the undemocratic way this project evolved. He expressed concerns about the profit Centra is able to collect from this project and is worried that the project will cost more than estimated.

Randall Stefanson

Mr. Stefanson, a fourth generation farmer from the RM of Bifrost, opposed the Application and stated that the taxpayers are currently paying one mill in taxes to fund this project, and this rate could increase to two mills. There have been no public meetings to discuss the project or to determine whether the Bifrost residents are interested in having natural gas

service. Companies, such as Isobord, would not have chosen this area, as it does not have the arable land base necessary to sustain this business. Mr. Stefanson owns a business where current energy costs are not limiting his profit potential. It is unfair that all the residents of the affected RM's have to pay for a service that they do not want or will not be able to access. Surveys have not been done to determine the potential customer base. Seven of the fourteen RM's have left ING, which may be an indication that the project is not feasible. Mr. Stefanson believes that the project is not feasible because it requires significant funding from the municipalities.

Harold Syrett

Mr. Syrett, on behalf of himself, his sons, Stewart and Christopher, and his wife, Winnefred, opposed the Application. He feels that economic growth is destructive to human and ecological values.

Wayne Taylor

Mr. Taylor, of Rockwood, expressed concern that this issue is dividing the community and creating an environment of distrust, deception and disrespect. The people want information not a sales pitch. He stated that his father, Joseph Taylor, a former member of the Board, felt that the Board's duty was to protect the interest of Manitobans and that the Board should consider the disruptive effect this Application is having on the community.

Gary Van Den Bossche

Mr. Van Den Bossche opposed the Application and feels that a user pay system is more appropriate. He expressed his concern that the community is being divided over the issue.

Terry Zolinski

Mr. Zolinski opposed the Application and is concerned that with industrial development comes crime. The idea that natural gas is the only thing that can bring in industry is not true.

17.0 Board Findings

17.1 General

In considering the approval of a franchise, the Board must determine that it is necessary and proper for the public convenience, and properly conserves the interest of the public. The Board, has considered the evidence put forward by Centra, ING and others in support of the project, and the passionate opposition to the project put forward by so many of the residents of the communities involved. In the Board's view, Centra's Application provides an excellent opportunity for many residential and commercial customers to access a cheaper energy source. The Board is sympathetic to the points made by many Intervenors that this project offers a unique opportunity to foster economic development and to access over \$5 million of funding from the Federal and Provincial governments in support of this project. However, a project of this size has to be very carefully considered to ensure that the anticipated benefits will in fact accrue to the municipalities involved, and to ensure that there is a balance between the costs incurred by the residents of each of the communities, and the benefits realized by them.

The Board also notes that some of the evidence provided by ING during the hearing regarding the organization itself, the by-laws of the organization and the funding arrangements for the project did not match with the paper record. This matter added to the many uncertainties attached to this Application.

17.2 Feasibility Test

The feasibility test filed by Centra includes revenues related only to Phase I of Stage I, and therefore includes only potential customers in the communities. No information is included in the feasibility test regarding potential rural attachments in Phase II of Stage I. However, the system design and resulting capital cost is based on the required capacity to serve the estimated peak demand of 100% of all potential residential and commercial customers including rural customers, plus 20% for future growth. The transmission system is designed for Phase I and Phase II, and the full capital cost of transmission is included in Phase I. In addition, the definition of potential customer for design purposes is different than the definition of potential customer for feasibility purposes. The Board is concerned that there may be a mismatch of costs and required funding between Phases I and II.

The Board has no information before it on the viability of Phase II, particularly in light of the apparent significant public opposition to the project, and the potential for customer attachments to be lower than originally estimated by Centra. The Board also has no evidence before it that the residual balance of Federal, Provincial and Municipal funding is sufficient to provide adequate funding for Phase II.

During the hearing, the Board heard from a significant number of potential rural customers who spoke in opposition to the Application. This opposition was further supported by the petition that was filed by Ms. Pshyshlak, which purported to represent in excess of 3,000 single family dwellings in the area, many of them rural homes. The Board acknowledges the opposition expressed by some about the legality and the validity of this petition. However, even discounting the petition numbers by a significant factor, the Board cannot ignore the consequences that this type of opposition might have on the potential viability of Phase II. The Board's concerns extend to a number of core issues surrounding the viability of this

project. In light of all of these uncertainties, the Board is of the view that the feasibility test should include both Phase I and Phase II of the Stage I project.

The Board is therefore unable to approve the feasibility test as currently filed. The Board will direct Centra to combine Phase I and Phase II as one package for feasibility test purposes. The revised feasibility test should include updated information on all potential customers, including rural customers. The customer attachment expectations for Phase II should be supported by current market survey information and be realistic in light of the apparent negative public response to the Application. In addition, the design criteria for the system should be based on customer profiles that are consistent with the customer profiles used for feasibility test purposes. In light of updated customer attachment information, it may also be possible for Centra to consider resizing the system design which will provide some reduction in capital costs, and accordingly may reduce the required contributions from the funding partners.

17.3 Federal Funding

At the time of the hearing the specific terms and conditions of the Federal funding arrangements were unclear. The Board was concerned that the documents filed as evidence during the hearing were not consistent with the oral evidence heard by the Board. It was the Board's understanding at the conclusion of the hearing that an amended revised Federal agreement would be filed with the Board that would correct various inconsistencies in the original document, as well as clearly state that the Federal funding is totally dedicated to the Stage I project, and that no part of the funding is allocated or committed in any way to the Stage II communities including Arborg, Riverton and Fisher Branch. At the hearing, the Board requested that an amended agreement be filed with the Board at the earliest possible opportunity.

It was the Board's further understanding that new resolutions might be required from the communities of Arborg, Riverton and Fisher Branch that clearly indicated that the funds originally identified in the Federal government press release for their communities have been allocated to the Stage I communities, and that the three communities have no further claim to the funding amounts.

On May 27, 1999, amendment Number 1 to the Federal funding agreement was filed with the Board. In the Board's view, amendment Number 1 clearly states that Federal funding, to a maximum amount of \$2,400,000, is fully allocated to "Stage I - Interlake." The Board will therefore not require any further resolutions from Arborg, Riverton and Fisher Branch as these communities are clearly not part of the Federal agreement related to this application.

17.4 Provincial Fundings

The Board has heard evidence that the Provincial funding agreement will be substantially in the same form as the Federal funding agreement. The Board further heard that the agreement was, at the time of the hearing, in the final stages of being completed and signed, and would be filed with the Board in a short period of time. However, as of the date of this Order, the final Provincial funding agreement has not been filed with the Board. The Board will direct that the final signed Provincial funding agreement be filed with the Board at the earliest possible opportunity.

17.5 Municipal Funding

The Board notes that the majority of opposition to the project was not related to the extension of natural gas service into the Interlake area, but rather with the methodology adopted by the municipalities to provide their portion of the funding for the project. There is a very high level of dissatisfaction with the process adopted by the municipalities, and in particular, the lack of communication with the constituents, and the lack of opportunity for residents to express their views in a public forum. The Board notes the comments of Mr. Bill Ridgeway, a presenter, who described his frustration with the process adopted by the municipalities. Mr. Ridgeway stated that if an open consultation and communication process had been adopted by the municipalities, tied in with the development of a long-term plan, there would have been little opposition to the project. The Board concurs with that observation, and notes that many of the Intervenors and presenters expressed the same frustrations and concerns.

The Board is also concerned with the significant negative impact the apparent lack of support for the project might have on the customer attachment assumptions, and the basic viability of the project. This is one of the reasons why the Board has directed Centra to refile its feasibility study using current information for Phase I and II.

Much of the public dissatisfaction attached to this Application has little to do with the feasibility of the proposed project. The opposition expressed by most parties has nothing to do with bringing natural gas to the Interlake. The opposition is fundamentally about the municipal funding arrangements for the project agreed to by the various municipalities, and the resulting property tax impacts.

The Board notes Mr. Goodman's argument that municipalities have the right to establish taxes based on operating budgets that provide for payments under debentures. Mr. Goodman

argued that politicians are elected to make informed decisions based on their best judgment, and the voters will assess those decisions at election time and vote accordingly. Although there appears to be much dissatisfaction with the public information process attached to this project, there is no evidence before the Board that the elected officials have not acted in what they consider to be the best interests of the communities. It is not within the Board's mandate to interfere with the lawful decisions made by properly elected municipal officials.

The Board has directed Centra to refile its feasibility study to include both Phase I and Phase II of the proposed Stage I project. In the time interval while Centra is reworking its design and feasibility test material, the various municipal councils are urged to re-evaluate, along with their constituents, both those who will receive gas service and those who will not receive service, the various funding options that may be available. In particular, the municipalities are urged to consider options to re-establish communication with their constituents in connection with this important project. Councils are also urged to reconsider alternatives to share the cost burden between those that will enjoy the direct benefits of natural gas service, and those that will receive only the broader benefits, and thus achieve a greater balance between the costs incurred and the benefits received. There may be a variety of options available to achieve this objective, including some combination of general levy and local improvement levy. In addition, the updated information to be used by Centra in refiling its feasibility study will be of interest and assistance to the municipalities and its citizens in this process.

In the Board's view, it is unfortunate that so many residents were left with the belief that the democratic process in this important matter was deficient. The Board concurs with the comments made by Mr. Ridgeway and others that much of the opposition could have been eliminated if the communication process had been handled better. However, the Board also agrees with the comments made by Mr. Goodman in his closing submissions when he stated

that "Municipal taxation is a matter clearly within the authority of municipal councils by virtue of the Municipal Act," and that the Board must "respect the lawful jurisdiction of municipalities."

While the Board appreciates Mr. Goodman's comments, the Board also recognizes its ability to order a vote on the matter under Section 66 of The Public Utilities Board Act. Rather than proceeding by way of a vote under Section 66, as argued by both CAC/MSOS and Ms. Pshyshlak, the Board trusts that the municipal councils will use the intervening period of time to open dialogue with their constituents on this important project.

17.6 Franchise Agreement

The franchise agreements as filed with the Board are generally consistent with franchise agreements in other service areas. The Board is satisfied that once all other conditions of this Order have been appropriately addressed by Centra and others, the franchise agreements should be approved.

The Board wishes to ensure that the residents within the current franchise area of Rockwood are not disadvantaged in any way by a future order of the Board that might replace the current franchise agreement with a new franchise agreement, which might change the existing terms and conditions of service in the current franchise area of Rockwood. The Board is of the view that residents in the current franchise area of Rockwood should be grandfathered for a reasonable period of time, so that they are not disadvantaged in any way. The onus will be on Centra to provide appropriate notice to each of these potential customers that the currently existing terms and conditions of service will apply only for a period of 90 days from the date of a future Order of the Board that may be issued on this matter, following which the new terms and conditions as a result of the new franchise agreement will apply.

These new terms and conditions of service may include matters related to the surcharge and the connection fee.

17.7 Surcharge

The Board agrees with Centra's approach in considering creative and unique alternatives for providing funding for system expansion in rural Manitoba. In the Board's view, however, the surcharge is a form of customer contribution, and is not general revenue. As such, it is a user-pay component of the project funding. The Board will therefore approve the surcharge, subject to the surcharge being accounted for as a customer contribution to construction, rather than general revenue. In addition, the Board is of the view that the surcharge should remain in place until such time as a total of \$566, 000 has been collected from customers, following which the surcharge should terminate. If possible, the surcharge should be shown separately on the bill, and should be referred to as a customer contribution rather than a general rate surcharge.

17.8 Connection Fees

The Board is aware that in certain recent franchise extensions, the connection fees have been collected by other parties, generally the municipality, and forwarded to Centra. The Board is of the view that the connection fee is a rate which should be approved by the Board. The Board is also of the view that the connection fee should be applied consistently to all customers in accordance with the approved fee schedule, with no exceptions. The Board will therefore direct that Centra collect all connection fees pursuant to a schedule of rates which has been approved by the Board and is consistently applied to all customers.

18.0 IT IS THEREFORE ORDERED THAT:

1. Approval of the Financial Feasibility Test for the expansion of natural gas service to the communities of Grosse Isle (that portion located in the rural municipality of Rockwood), Balmoral, Gunton, Warren, Woodlands and Teulon **BE AND IS HEREBY DENIED.**
2. Centra file a revised Financial Feasibility Test with the Board at the earliest possible opportunity. The revised Financial Feasibility Test should include both Phase I and Phase II of Stage I, as well as reflect current information on potential customers and customer attachments. In addition, there should be consistency between potential customers for design purposes and potential customers for financial feasibility purposes.
3. A signed Provincial funding agreement should be filed with the Board at the earliest possible opportunity.
4. Subject to Centra complying with other conditions of this Order, the proposed new franchise agreements between Centra Gas Manitoba Inc. and the Rural Municipalities of Rockwood and Woodlands, and The Town of Teulon **BE AND ARE HEREBY APPROVED.**
5. Centra should advise all existing potential customers in the current service area in Rockwood that they are entitled to service under existing terms and conditions for a period of 90 days from the date of a future Order of the Board that may be issued on this matter. Thereafter, the terms and conditions of service in effect at the time the potential customers request service will apply.
6. Approval of the Expansion Surcharge to be charged to new customers in the Rural Municipalities of Rockwood and Woodlands, and in the Town of Teulon, **BE AND IS HEREBY APPROVED**, subject to the surcharge being treated as a contribution in aid of construction, and subject to a total amount collected by the surcharge not to exceed \$566,000, following which the surcharge will terminate. If possible, the surcharge should be shown separately on the customer bill.
7. Connection fees should be charged and collected by Centra pursuant to a schedule of connection fees approved by the Board, and assessed to all new customers in a consistent fashion.

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"

Chairman

"Hollis Singh"

Acting Secretary

Certified a true copy of
Order No. 115/99 issued by
The Public Utilities Board

Hollis Singh

Acting Secretary