The Public Utilities Board

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Winnipeg, Manitoba
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MANITOBA	)	Order No. 89/97
	)	
THE PUBLIC UTILITIES BOARD ACT	)	November 26, 1997

BEFORE: G. D. Forrest, Chairman
D. L. Barrett-Hrominchuk, Member
W. E. Chiswell, Member

AN APPLICATION BY CENTRA GAS MANITOBA INC.
FOR APPROVAL OF:

A. A FRANCHISE AGREEMENT WITH THE RURAL MUNICIPALITY OF RITCHOT
B. THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS SERVICE TO THE COMMUNITY OF STE. AGATHE AND THE MANITOBA INTERLINK INDUSTRIAL PARK
C. A CHANGE IN THE INTEREST RATE FOR FINANCING NATURAL GAS APPLIANCES
D. A MINIMUM MONTHLY DEMAND CHARGE IN THE CONTRACT BETWEEN CENTRA GAS MANITOBA INC. AND CANADIAN AGRA FOODS LTD. AND CANADIAN AGRA VEGETABLE OIL AND FOODS INC.

The Public Utilities Board

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1.0 Appearances

R. F. Peters	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 the Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors ("CAC/MSOS")
E. Whitney	Councillor, Rural Municipality of Ritchot ("Ritchot")

2.0 Witnesses for Centra Gas Manitoba Inc.

G. Barnlund	Manager, Industrial, Large Commercial Markets
J. D. Brett	Vice-President, Regulatory and Corporate Affairs
L. M. Herzog	Manager, Residential/Small Commercial Markets
W. Tibelius	Senior Engineering Advisor
W. W. West	Manager, Administration and New Markets

3.0 Intervenors

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

Rural Municipality of Ritchot

Simplot Canada Limited ("Simplot")	G. Collis, Plant Manager
The Seagram Company Ltd. ("Seagram")	T. Ostapovitch, Gas Coordinator

4.0 Presenters

Canadian Agra Foods Ltd and Canadian Agra Vegetable Oil and Foods Inc. ("Can Agra")	J. Murta, Director
Economic Development Board of Cabinet Province of Manitoba	G. Moore, Senior Project Manager

5.0 Background

On August 14, 1997, Centra, on its own behalf and on behalf of Ritchot, applied to the Board pursuant to the Public Utilities Board Act and the Municipal Act for an order approving a new Franchise Agreement between Centra and Ritchot for the distribution of natural gas within those portions of Ritchot currently not covered by a franchise agreement with Centra. Centra also applied for Board approval of a feasibility test for the expansion of natural gas service to the Community of Ste. Agathe and to the Manitoba Interlink Industrial Park ("MIIP"), all located within Ritchot.

A public hearing to consider this application was held by the Board on October 1 and 2, 1997 at the Ste. Agathe Cultural Centre, Ste. Agathe, Manitoba. At the hearing Centra also requested that the Board approve the minimum payment arrangement contained in the Centra/Can Agra Agreement respecting the minimum monthly billing demand charges.

In response to an issue that arose during the hearing, Centra also revised its application to seek approval of a lower financing rate as a marketing incentive for the residents of Ste. Agathe to acquire new gas appliances.

6.0 The Application

6.1 Franchise Agreement

On September 2, 1997, Ritchot gave first reading to its By-Law 25-97 (replacing the original By-Law 15-95) authorizing Ritchot to enter into an agreement with Centra to expand Centra's franchise area to include those areas within Ritchot currently not covered by a franchise agreement. Second and third reading of this By-law would be completed if the Board approves the franchise agreement. The franchise agreement grants Centra exclusive rights to provide gas service to those areas of Ritchot covered by that agreement. It contains similar terms and conditions as the generic franchise agreement approved by the Board in Order 109/94, dated August 2, 1994.

6.2 Customer Attachments and Annual Volumes

In assessing this project, Centra conducted a market survey for the community of Ste. Agathe in 1995 and updated the survey in 1997. Centra also assessed the customer potential within the MIIP currently being developed by Can Agra and within the Rural Municipality of Hanover ("Hanover"), east of the Red River and adjacent to Ritchot. Centra stated that, while there is a potential for other customer attachments within and adjacent to the proposed franchise area, loads for these potential customers have not been included in the feasibility study for this project. According to the feasibility tests Centra identified 125 residential and 16 commercial potential customers. Centra expects to attach 95 residential and 12 commercial customers in the community of Ste. Agathe by year 5. These customer numbers represent an attachment rate of 74%, with 63 residential and 8 commercial being attached in the first year. Centra did not consider any further customer growth in Ste. Agathe for purposes of this feasibility study.

Can Agra is constructing a canola crushing plant within the MIIP which was scheduled for commissioning in October, 1997. The operation of the plant will proceed in two phases; Phase I production is estimated to be 1,000 tonnes per day requiring the use of approximately 3,300 10^3 M^3 of natural gas in the initial year and 6,600 10^3 M^3 in the second year. Phase II of the crushing operation would double the daily production to 2,000 tonnes with a required annual gas load of 11,600 10^3 M^3. Can Agra plans to operate the plant at its maximum capacity in year 3 of the project.

Centra used the operational parameters provided by Can Agra to estimate Can Agra volumes for the feasibility study. In addition to the Can Agra operation, there are 14 other lots in the MIIP. Centra has assumed an attachment of one commercial customer for each of seven years, from year 2 to year 8. No other new commercial customers are included in the project feasibility study.

The proposed routing of the transmission system will enable customers currently outside the existing franchise area in Hanover to be served. Recent customer surveys indicate a potential of 934 residential and 215 commercial customers, which have not been included by Centra for this study. Similarly, Centra did not include any of the potential 138 customers distributed over a length of 32 miles and located south of Ste. Agathe and in the Hanover community of St. Adolphe.

Centra has assumed an annual consumption of 2.8 10^3 M^3 for each residential customer, as it has done for most recent expansions. Commercial volumes for Ste. Agathe customers were estimated by comparing similar types of buildings using natural gas in other areas of the Province, and consumptions for unoccupied premises were estimated for space heat loads only. Can Agra supplied its estimate of annual volumes for the crushing plant which Centra verified by comparisons with other like operations.

6.3 System Design and Routing

Centra considered two possible routes for the transmission system required for this project. The route utilizing the existing St. Norbert primary station, although slightly less expensive than the selected option, was not chosen. Rather, in respect of the selected option Centra indicated that it negotiated a new right-of-way which reduced the length and therefore the costs of required transmission pipe. Additionally, Centra submitted a revised design which incorporated only one regulator station to serve both Ste. Agathe and the industrial park. During the hearing, Centra amended its application to reflect these reduced costs. The revised transmission cost for the selected option is $1,131,420, compared to the St. Norbert supply option of $1,050,220. The total revised capital cost estimate is approximately $1,800,000 as opposed to the original estimate of $1,969,720.

Centra stated that the selected option has 18% more ultimate capacity and also incorporated the future requirements for a TCPL take-off to serve the Hanover area. The higher costs for the selected option were due to the requirement for a new primary station, two river crossings, additional right-of-way requirements and other miscellaneous costs which were somewhat offset by a lesser length of transmission pipe. Transmission pipe and the distribution main in the MIIP will be steel, with polyethylene being used for other distribution system requirements. All designs, maximum operating pressures, materials and construction methods are in accordance with applicable codes, standards and accepted construction techniques. Centra included a 20% growth allowance in designing the transmission facilities for this project and a 20 scfh allowance to accommodate Can Agra's growth potential in the MIIP.

6.4 Feasibility Test

Centra utilized a 30 year net present value ("NPV") test to determine project feasibility and to determine the extent of any required customer contributions. For purposes of the feasibility test, Centra has, for the first time, utilized incremental gas costs. The feasibility test contains a cost of gas that includes the incremental commodity costs and TCPL transportation costs required to serve the forecast loads over the first 10 years of the project. Centra does not expect to incur any incremental storage related costs to serve this high load factor customer. As a result, the incremental gas cost is lower than Centra's system weighted average cost of gas ("WACOG"). Centra acknowledged that the use of incremental gas costs for this application was a significant departure from previous expansion applications which utilized Centra's WACOG in the feasibility analysis.

Centra contended that the use of incremental gas costs for determining the feasibility of this project was appropriate, as it reflected Centra's best estimate of the actual gas costs that would be incurred. Centra further suggested that the fact that the use of WACOG had been used in prior applications did not mean it should necessarily be used in this case, if it did not reflect expected gas cost for this project. Centra suggested one unique circumstance of this project supporting the use of incremental gas costs was the relatively high load factor of Can Agra, which would, by far, be the largest consumer and which does not require any incremental storage costs to be incurred.

Centra stated that the NPV result using incremental gas costs resulted in a positive 30 year cash flow of some $790,000, while the use of WACOG would result in a required overall customer contribution in the range of $850,500. Centra used a discount rate equal to the overall allowed rate of return approved by the Board in Order 13/97. The annual revenues were calculated by applying the existing Board approved annualized base rates. A copy of the feasibility test is attached as Appendix "A" to this Order.

Centra stated that, while there would initially be only three customer classes in this franchise area (Small General Service "(SGS"), Large General Service ("LGS") and High Volume Firm ("HVF"), all the cost of service components for this project would be allocated to all customer classes across the entire Province, in accordance with the existing cost of service methodology as approved in Order 107/96, dated October 17, 1996 and Order 8/97, dated February 20, 1997.

Centra conceded that there are risks associated with this project, as there are with any business venture. It argued, however, that the potential benefits to Centra's existing customers, based on the assumptions upon which the feasibility test was conducted, were estimated to be approximately $700,000 on a NPV basis. The fact that many stakeholders had invested significant sums of money in this project should suggest, according to Centra an acceptable level of risk, as these stakeholders would do everything within their power to ensure a return on their investment.

6.5 Cost of Service:

Several existing Mainline and High Volume Firm customers and the Special contract customers raised concerns that they were, in effect cross-subsidizing Can Agra and similar recent system expansions by paying some of the transmission and transmission related costs as a result of the existing cost allocation methodology.

With respect to the matter of the cost allocation methodology, Centra submitted that existing Main Line and Special Contract customers would not see their rates increased directly as a result of this application, because the costs and revenues were already included in Centra's cost of service for its 1997 Test year and were reflected in current Board approved rates. Centra proposed to make application to the Board by the end of the first quarter in 1998 for resolution of this matter.

6.6 Centra Gas Manitoba Inc. - Canadian Agra Agreement

On July 21, 1997 Centra and Can Agra entered into a five year agreement for natural gas service. Under the terms of this agreement, Can Agra would be classed as a High Volume Firm sales customer, but would have the option of having third party gas supplied under the existing Buy/Sell mechanism. Can Agra could not, however, change customer classes, nor could they opt for transportation service during the five year term of the agreement. Can Agra would also be required to pay a minimum monthly charge consisting of a fixed customer charge and a minimum monthly demand charge to be the greater of its Monthly Billing Demand or the minimum Firm Daily Contract Demand. Centra requires and seeks Board approval of the minimum monthly demand charge. This minimum monthly billing demand charge was included to afford a measure of protection for Centra's capital investment in this project. The payment schedules and annual gas flow estimates for Can Agra are included in a copy of the Centra/Can Agra Agreement attached as Appendix "B" to this Order.

6.7 Financing charge

Subsequent to, but in response to an issue raised at the public hearing, Centra amended its application to include a request for Board approval of the reduced interest rate being offered to residents of Ste. Agathe for the financing of appliances. The proposed financing rate is 6.9%, while the rate contained in Centra's Schedule of Additional Charges and approved by the Board in Order 74/95, dated June 23, 1995, is 12.9%.

7. Intervenor's Positions

7.1 CAC/MSOS

CAC/MSOS advanced arguments primarily in respect of the business risks associated with this project and the impact of the use of incremental gas costs rather than WACOG. CAC/MSOS submitted that the Board must render a decision based solely on the economics of the project ensuring that it met the tests pursuant to the Public Utilities Board Act. CAC/MSOS suggested that other matters such as local hardship due to the spring flood were outside the purview of the Board. CAC/MSOS contended that the Application was before the Board only because of the Can Agra project and that the residents of Ste. Agathe were "add on" customers. Without Can Agra there would be no Application.

CAC/MSOS argued that because Can Agra represented such a large proportion of the estimated annual volumes, the associated business risk was much greater than that of previous system expansions. CAC/MSOS further contended that Can Agra's estimated consumptions were based on the assumption of production at 100% of capacity for both Phase I and II of the project. If, as an example, Phase II did not proceed, the cash flows resulting from the project would be significantly reduced. Additionally, CAC/MSOS submitted that Centra had not conducted adequate "due diligence" investigations. CAC/MSOS expressed concern that the existence of a $12 million construction lien against the facility, the sensitivity of this operation to the demands of the canola oil international market, and the potential negative impact on the future development of the MIIP if Can Agra itself was not successful all have not been adequately examined by Centra. CAC/MSOS urged the Board not to assume that the expenditure to date on the project of some $46 million by Can Agra necessarily guaranteed success of the project.

CAC/MSOS further argued that the guaranteed minimum monthly payments amounting to approximately $94,000 per annum for the five year term of the Can Agra Contract was only valid if Can Agra were to remain in business for five years. CAC/MSOS questioned why

Can Agra had not been willing to enter into a longer contract term, given their optimistic outlooks for this endeavour. They noted that if Can Agra were to decide to become an Interruptible or T- Service customer after five years the economics of the project would be jeopardized. CAC/MSOS argued that Can Agra was getting the infrastructure required to supply its facilities with natural gas at no cost, and would realize operational savings of approximately $5.00 per tonne, or some $3.65 million per year by using natural gas instead of an alternate fuel.

CAC/MSOS suggested that the Board consider the following alternatives to help mitigate against the risks inherent in the Can Agra venture.

1. Reduce the discount rate used in the feasibility analysis to recognize the greater risk. CAC/MSOS conceded that this would not likely be practical at this time, as it involved a number of other issues and insufficient information was available for an informed decision.

2. Require Can Agra to make a customer contribution equal to the amount necessary based on a feasibility test which reduced Can Agra's volumes to those estimated for the first Phase. If Phase II were proceed with, this contribution could be refunded to Can Agra.

3. Increase Can Agra's minimum monthly payment based on the increased Contract Demand after Year 3 to reflect the increased Phase II volumes. This would, however, not eliminate the risk if Can Agra were not to remain as an operator.

4. Require Can Agra to enter into a longer term contract with terms and conditions similar to those being proposed. This alternative also would only be viable if Can Agra were to remain in business at this location.

CAC/MSOS noted that the use of incremental gas costs instead of the WACOG in the feasibility test generated a positive cash flow of approximately $700,000. The use of

WACOG for the test would result in a negative cash flow of some $900,000. CAC/MSOS questioned what had occurred since the project initiation to require Centra to change the use of WACOG in the test. CAC/MSOS argued that it was not appropriate to make such a significant change without the benefit of a public forum to investigate the issue. The use of WACOG had been appropriate for the rural expansions in 1994 and the IPL project in 1996. This proposed change would confer a large advantage to Can Agra.

CAC/MSOS also commented on the use of the 30 year NPV test for expansion analysis, stating that they supported the concept in 1994, but recognized that project specific modifications might be necessary.

CAC/MSOS also recommended that the matter of allocation of transmission costs and the impact of these costs on larger volume customers outside a proposed franchise area be dealt with by the Board, in a public forum and that this be investigated sooner rather than later.

7.2 Rural Municipality of Ritchot

Mr. Whitney, on behalf of Ritchot, outlined Ritchot's plans for construction of additional dykes to better protect Ste. Agathe against future flooding. This would also encourage further residential housing development and the development of a light industrial park in Ste. Agathe. He also suggested that the availability of natural gas, as an alternate to electricity would enhance these and other development opportunities. He suggested that the Board consider that all new endeavours contained an element of risk. He further submitted that the commitments to the project to date by the federal government, the Province, Ritchot, Canadian National Railway, Manitoba Hydro, and Manitoba Telecom Services Inc. indicated that these entities had assumed a risk by funding the majority of the required infrastructure. The benefits arising from a successful project would flow to all stakeholders, would allow for further economic expansion, and would outweigh the potential risks.

7.3 Simplot

In a written submission Simplot stated that, while it felt it should not be involved in expansion hearings for other parts of the Province, such expansions will increased their natural gas rates. To date, rural expansion has increased in Simplot's annual costs by some $174,000. If the alleged flaw in the cost allocation methodology were not changed to prevent such increases, Simplot would have to oppose future expansions. Simplot did not do so in this case, as it felt the cost allocation issue would be resolved by the Board in the near future. Simplot requested the Board to address this issue and establish a process to re-institute fair and equitable cost based rates a soon as possible.

7.4 Seagram

Seagram agreed with the position put forward by Simplot and supported rural economic development subject to the cost allocation methodology being revised.

8.0 Presenter's Positions

8.1 Can Agra

Can Agra stated that the concept underlying the MIIP was to attract agricultural industries and to have the by-products produced by one industry upgraded by another industry within the Park. Can Agra owns approximately 50% of the Park, with the other ownership shares being held in trust on the basis of 25% being available to Ritchot and 25% to other interested third party investors.

Can Agra intended to operate the MIIP in a fashion similar to Can Agra's existing operations in Kincardine, Ontario. The initial stage is the canola crushing operation. The Middle East and India are Can Agra's primary markets, rather than the domestic market. The MIIP hopes to attract additional investment from industries such as a grain terminal, feed mill, vegetable oil refinery, alfalfa processing plant and flour mill. Future industries could include poultry or hog processing plants, bio-lubricant and bio-diesel plants.

Canola crushing is energy sensitive and the presence of abundant and low cost electricity and natural gas was a critical determinant in the selection of the Ste. Agathe site. Can Agra's estimate is that use of a fuel, other than natural gas, would increase production costs by approximately $5.00 per tonne, and would be less environmentally friendly.

While Can Agra is firmly committed to this "state of the art" operation and has spent $46 million to date, with final facilities expenditures estimated at some $60 million, it has encountered recent financial difficulties. Among these was a financial shortfall from one investor which resulted in construction liens being placed against the project property. Can Agra is currently in negotiations with financial institutions and major shareholders and is optimistic that the financial situation will be resolved.

The spring flood damaged some of the recently installed infrastructure and delayed commissioning of the plant. Although now rebounding, market demands over the past several months for canola oil had softened, resulting in a reduced production in the industry generally.

Mr. Murta, on behalf of Can Agra, stated that the facility would use state of the art technology which eliminates the need for use of a chemical solvent to extract the oil from the canola. Can Agra is of the view that such an operation would give them a distinct advantage in the target export market, as the export markets focus heavily on processes which do not use any chemicals. He observed that this operation would give canola growers another market for their product, being the export market. The existing canola crushing plants at Harrowby and Altona primarily target the domestic market. He also indicated that the use of natural gas as the fuel had been assumed since the project was initially conceived.

8.2 Economic Development Board of Cabinet, Province of Manitoba

Mr. Moore stated that a non-subsidized agricultural industry in Manitoba could no longer rely on the export of grain as its main revenue source, given the high cost of production and transportation. The shift in strategy had to entail a reliance on the concept of adding value in the processing of the traditional products and that the MIIP was structured to accomplish this strategy. This venture consisted of a public/private partnership, with the three levels of government, the Canadian National Railway, Can Agra and Centra undertaking to provide all the necessary infrastructure, while Can Agra fully funded the production facilities. The infrastructure costs were some $3.4 million to date, funded by the three levels of government ($1.1 million for water and sewer, $0.7 million for roads) Canadian National and Can Agra (at $1.2 million), and Manitoba Hydro (at $0.4 million).

The Can Agra plant would be a world class facility and would maximize the value of raw materials within Manitoba, primarily for the export market. Mr. Moore submitted that the economic spin-off benefits to Manitoba flowing from the construction of the plant was an estimated $11 million, which included 127 person years of employment and generated additional taxes of $3 million. The plant operation would create an estimated 35 jobs and would generate $16 million annually in taxes, when all sources of taxation were considered.

9.0 Board Findings

9.1 Feasibility Test

In assessing the viability of any expansion, a feasibility test is used to measure the difference between the projected revenues and estimated costs of the project, including a return on investment, and to determine the net present value of any necessary customer contribution. During the course of the hearing it became apparent that there was some confusion as to which feasibility test should be used for franchise expansions.

Prior to the hearings held in 1994 to review the financial viability of constructing natural gas distribution systems to serve various rural areas of Manitoba, the Board had utilized a feasibility test which required that the revenue to cost ratio be at least 1.00 by the fifth year of the proposed project. Should costs exceed revenues after the fifth year, customer contributions were required.

In Order 109/94, the Board ordered that system expansions proposed under the Canada-Manitoba Infrastructure Works Program be analyzed using a 30 year NPV calculation to determine the extent of customer contributions necessary to allow Centra to earn its allowed rate of return and to save harmless the existing system customers. The useful life of natural gas expansion systems in Manitoba has been established at 30 years which coincides with the term of the standard franchise agreement. At that hearing, Centra indicated that it would use a similar test to assess all future system expansions subject to making refinements for unusual circumstances on a community by community basis.

In Order 124/96, the Board approved a franchise expansion to the Rural Municipality of Pipestone to serve a single customer. Centra proposed the use of a 30 year NPV test to assess that expansion. The Board ordered Centra to refile the application to calculate the required customer contribution using a fifth year revenue to cost ratio of 1.00, and subsequently approved the application, based on the customer making a customer contribution.

Having reviewed the evolution of the various project assessment tools, the Board will direct that all future expansions, for both new franchise areas and within existing franchise areas, be assessed by use of a 30 year NPV test, with the additional condition that the revenue to cost ratio is at least 1.00 by the end of the fifth year in normal circumstances. The Board considers that such a model will best match costs and revenues over a time period that closely approximates the expected average useful life of the plant required to serve the proposed area. Additionally, such a model will recognize that the fifth year revenue to cost ratio of 1.00 is an appropriate measure to determine the time by which new customers must be in a break even position and no longer be subsidized by existing system customers. The Board recognizes that there may be special circumstances that may warrant a departure from this model, but will require that any departure be justified on a project by project basis.

9.2 Appropriate Gas Cost

Centra has used incremental gas costs to assess the feasibility of the proposed system extension in this application. This approach is a significant departure from previous applications which used WACOG as the cost of gas component in the feasibility test. Centra submitted that the use of incremental costs is reasonable and appropriate in that it represents a best estimate of what the actual gas costs will be based on a ten year load profile analysis for the project.

The Board recognizes that the feasibility test is only a tool to assist in determining the financial viability of a proposed project, and to indicate what, if any, customer contribution might be required to eliminate any potential cross subsidy from other existing customers. In the current application, Centra has estimated revenues based on existing Board approved rates, and has estimated expenditures using incremental costs. Although the logic of this approach may be sound, the issue of an appropriate gas cost is a complex one and one that the Board will review in the future.

Centra acknowledges that there have been major changes occurring in the business environment in which it operates, and these changes may have significant implications on the gas costs and other components of future feasibility models. The Board agrees with Centra that a review of these issues is now required. The Board will therefore direct Centra to conduct a detailed study to consider the appropriate gas costs, as well as other costs to use in all future feasibility models, and report to the Board at the earliest opportunity. This study will then be reviewed in an appropriate public forum. Any feasibility models submitted to the Board in the interim should be prepared using WACOG.

9.3 Cost of Service Issues

In response to presentations from Simplot and Seagram and subsequent cross examination, Centra acknowledged that there were some issues related to the existing cost of service methodology concerning the allocation of transmission costs that require immediate investigation by Centra. The Board notes that the concerns expressed by Simplot and Seagram have no effect on the current approved rates, and in that respect do not effect the current application. The issue is, however, important as Centra continues to expand its system. The Board will therefore direct Centra to reconsider the cost allocation issues related to this matter and to report to the Board at the next General Rate Application scheduled for February 1998.

9.4 Franchise Application

The Board is satisfied that the terms and conditions of the proposed Franchise Agreement between Ritchot and Centra are consistent in all respects with the most recent franchise agreements approved by the Board. The 30 year term of the Franchise Agreement is the standard term adopted by the Board and approximates the average useful expected life of the plant which is to be installed. The Board will therefore approve the Franchise Agreement between Ritchot and Centra.

9.5 Customer Attachments and Volumes

The Board notes that Centra has assumed a 50% first year conversion rate for the Ste. Agathe customers and an ultimate rate of 74%, to be achieved in year 5. At these conversion rates, a total of 71 customers (63 Residential, 8 Commercial) are expected to be served in the first year and 107 (95 Residential, 12 Commercial) in the fifth year, of a total 125 potential residential and 16 commercial customers. The Board also notes that Centra has signed 57 Residential and 6 Commercial customers to date. A seventh commercial customer was expected to be confirmed by mid October 1977. Although not included in the feasibility study, other potential customers in Ritchot and in the adjacent Rural Municipality of Hanover could be served with these same transmission facilities. The Board considers that Centra's estimates of conversion rates for both residential and commercial customers in Ste. Agathe to be reasonable.

Approximately 50% of the volumes used in determining the feasibility of this project are those required for the Can Agra canola crushing operation and which has signed a contract for gas service with Centra. In its feasibility analysis, Centra has assumed that seven of the available 14 lots would be occupied by year 8 of the project. However, the project is viable without these further customer attachments if the Can Agra plant achieves expected consumption levels.

The Board accepts that the estimated annual unit consumption of 2.8 10^3 M^3 for residential customers and the commercial consumptions determined are reasonable. The required consumptions for the canola crushing operation were estimated by Can Agra and Centra testified that these estimated consumptions, when correlated with empirical information for other oil seed crushing operations, were reasonable.

On balance, given that the Board considers Centra's estimates for future residential and commercial customer attachments to be reasonable, and assuming that Can Agra commences and continues to be operational as assumed, the Board will accept the volumes as submitted by Centra for inclusion in the feasibility analysis. The matter of the operation of the Can Agra facility is subsequently addressed in this Order.

9.6 System Routing

The Board will accept Centra's proposed routing for the transmission facilities. The Board notes that the transmission facility has been designed with excess capacity, some of which will eventually be utilized to provide service to other areas within and outside this proposed franchise area. A portion of the transmission costs could rightfully be considered as not specifically required to deliver the volumes used in the feasibility analysis. The Board considers the additional capacity and greater flexibility for future customer attachments to warrant the additional costs.

9.7 Gas Costs

The load profile in this Application is considerably different than for most previous expansions because of the high load factor of Can Agra. Centra contended that the most economical way to supply gas in this case is to contract only for incremental capacity on the TCPL system, without any additional storage requirements. Additionally, other costs used in the feasibility test are largely incremental costs.

As noted earlier, the Board considers that there is insufficient evidence to determine if WACOG, or incremental gas costs, or some other gas cost estimate is appropriate to use, given the high load factor of the major customer. The Board recognizes that at one extreme the use of WACOG results in a required customer contribution in the range of $850,000, while the incremental cost of gas, at the other extreme, results in a positive net present value in the range of $790,000. Given this wide range of approximately $1,640,000, and given that an appropriate cost of gas is directionally more likely to be towards the incremental side, because of the high load factor customer, the Board is prepared to accept the feasibility test prepared by Centra that does not require any customer contribution.

Accordingly, the feasibility test for the Ste. Agathe expansion is accepted on a one time basis only. This decision to accept the feasibility study in no way will set a precedent for future decisions. As previously stated, Centra will be directed to undertake a study to review the matter of appropriate costs to use in future feasibility models, in view of the changing nature of Centra's business.

9.8 Financial Risks

As noted earlier, because of the significance of Can Agra's load, the feasibility of this project is highly dependent on Can Agra's forecasted volumes being achieved. A further financial risk on this project is the potential for Can Agra, at the end of the proposed five year contract, to change from a firm customer class to an interruptible or a T-Service customer class which could negatively impact revenues.

Mr. Murta, in his presentation, outlined the significant plans his company has for the Manitoba Interlink Industrial Park. Mr. Murta further stated that while the market for product had softened earlier in the year market conditions are now near normal. While Can Agra was experiencing some financial difficulties, Mr. Murta was confident that those financial problems would be overcome and the plant start-up would occur shortly.

While the Board appreciates Mr. Murta's optimism, the Board is very concerned that Centra did not supply any evidence that it conducted detailed independent investigations on the probabilities of Can Agra not proceeding with its plans and it appeared that Centra was unaware of the circumstances surrounding the project financing as late as the date of the hearing. Further there is little evidence supporting the contention that the production will reach the 2,000 tonne per day level in year 3 of this project.

The Board wishes to state in the clearest possible terms that Centra has a significant responsibility for performing due diligence on projects such as this one and that the long standing regulatory requirement for an expenditure to be allowed in rate base is the requirement for Centra to demonstrate that the expenditure, related to an asset, is used, useful and prudently acquired. The Board is not convinced that Centra has conducted full and adequate due diligence.

The Board notes the 1997 future test year rate base approved by the Board in Order 8/97 included approximately $1.7 million for the Ste. Agathe expansion, which was expected to be installed in the fall of 1997. It is apparent that this expenditure will not occur in 1997. The Board will therefore direct this expenditure to be removed from the 1997 rate base and treated as construction work in progress for purposes of computing the 1998 annual base rates to be effective as of January 1, 1998.

The Board will further direct that if Centra decides to proceed with the Ste. Agathe extension, all direct and indirect expenditures should be treated as construction work in progress until such time as the Can Agra plant achieves the Phase I production levels anticipated in the feasibility study, or until such time as Centra can demonstrate to the Board the prudence of the expenditures.

9.9 Discounted Finance Rate

The Board has considered Centra's request to allow the discounted finance contract rate of 6.9% for the Ste. Agathe customers who choose to finance the purchase of certain gas equipment. The existing Board approved rate is 12.9%. Centra has not applied for a change in this rate since 1995. The Board is of the opinion that allowing different rates in different communities would constitute undue discrimination among customers. The Board therefore will deny Centra's request to offer lower finance rates in Ste. Agathe.

9.10 Special Contract

The contract between Centra and Can Agra contains a provision which recovers a minimum monthly charge consisting of a fixed customer charge and a minimum monthly demand charge. The minimum monthly demand charge is to be the greater of Can Agra's Monthly Billing Demand or the minimum Firm Daily Contract Demand. This provision and charge will be approved by the Board on the condition that the contract be amended such that any proposed change of customer class for Can Agra, after the five year term, requires Board approval. If after the five year term, Can Agra seeks Board approval to change customer classes, the Board will re-examine the assumptions made in the proposed feasibility test and compare such assumed costs and revenues to actual costs and revenues ensure that this project has and will continue to benefit the entire distribution system.

The Public Utilities Board

IT IS THEREFORE ORDERED THAT:

1. The franchise agreement between the Rural Municipality of Ritchot and Centra Gas Manitoba Inc. BE AND IS HEREBY APPROVED.

2. The Board will accept the feasibility study for the Ste. Agathe franchise extension which requires no customer contributions.

3. The minimum monthly demand charge, as calculated in the July 21, 1997 Agreement between Centra and Can Agra BE AND IS HEREBY APPROVED on the condition that the said Agreement be amended such that any proposed change of customer class by Can Agra, after the five year term, requires Board approval.

4. All 1997 forecasted expenditures related to the Ste. Agathe franchise extension be removed from the 1997 rate base and be treated as construction work in progress for purposes of calculating 1998 base rates to be effective January 1, 1998.

5. All actual direct and indirect expenditures related to the Ste. Agathe extension be treated as construction work in progress until such time as the Can Agra plant achieves the Phase I production levels anticipated in the feasibility study, or until such time as Centra can otherwise demonstrate to the Board the prudence of the expenditures.

6. A 30 year net present value test be applied for all future expansions, for both existing franchise areas and new franchise areas, and the proposed expansion achieve a revenue to cost ratio of at least 1.00 by the fifth year.

7. Until further directed by the Board, all future feasibility analyses submitted to the Board be prepared using the weighted average cost of gas.

8. Centra conduct a detailed study to consider the appropriate gas costs and other costs to use in all future feasibility models, and report to the Board at the earliest opportunity.

9. Centra's request to offer a reduced finance rate to Ste. Agathe residents BE AND IS HEREBY DENIED.

10. Centra reconsider its cost of service methodology related to the allocation of transmission costs, and report to the Board no later than the next General Rate Application.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 89/97 issued by The Public Utilities Board

Hollis Singh
Acting Secretary

Rural Expansion Financial Feasibility Test

	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
1 **Town(s): Ste. Agathe &**											
2 **Manitoba Interlink Industrial Park**											
3 OPERATING ASSUMPTIONS											
4 Number of Customers		72	82	92	102	112	113	114	115	115	115
5 Annual Volume (Mcf)		122,426	247,590	427,798	433,266	438,734	443,468	447,468	451,468	453,468	453,468
6 Projected Revenues		$405,216	$822,120	$1,402,999	$1,426,375	$1,449,750	$1,469,269	$1,484,930	$1,500,591	$1,508,421	$1,508,421
7 RATE BASE											
8 Gross Fixed Assets	$1,767,656	$1,906,062	$1,917,902	$1,930,096	$1,942,656	$1,955,593	$1,960,164	$1,964,871	$1,969,720	$1,969,720	$1,969,720
9 Accumulated Depreciation		$56,229	$112,807	$169,745	$227,053	$284,743	$342,568	$400,532	$458,638	$516,745	$574,852
10 Contributions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
11 Working Capital Allowance		$16,925	$25,617	$43,153	$43,681	$44,209	$44,560	$44,678	$45,175	$45,314	$45,302
12 Rate Base		$1,824,670	$1,853,281	$1,825,876	$1,761,656	$1,737,435	$1,688,783	$1,635,845	$1,582,886	$1,527,342	$1,469,223
13 REVENUE DEFICIENCY CALCULATION											
14 Revenue Requirement		$686,937	$892,447	$1,299,291	$1,308,627	$1,317,865	$1,321,975	$1,324,802	$1,327,064	$1,324,995	$1,319,032
15 Cost of Gas		$325,887	$557,523	$964,182	$975,628	$987,053	$995,458	$1,003,078	$1,010,216	$1,013,773	$1,013,773
16 Operating & Maintenance Expenses		$21,800	$22,800	$23,800	$24,800	$25,800	$25,900	$26,000	$26,100	$26,100	$26,100
17 Depreciation Expense		$56,229	$56,578	$56,938	$57,308	$57,690	$57,825	$57,964	$58,107	$58,107	$58,107
18 Amortization of Contributions		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
19 Municipal Tax & Corp.Cap. Tax		$26,777	$26,756	$26,735	$26,714	$26,692	$26,446	$26,200	$25,954	$25,664	$25,373
20 Income Taxes		$81,519	$51,325	$52,796	$53,570	$54,256	$54,633	$54,916	$55,114	$55,097	$54,990
21 Overall Return		$174,725	$177,465	$174,841	$170,607	$166,372	$161,713	$156,644	$151,573	$146,254	$140,689
22 Total Revenue Requirement		$686,937	$892,447	$1,299,291	$1,308,627	$1,317,865	$1,321,975	$1,324,802	$1,327,064	$1,324,995	$1,319,032
23 Projected Revenues		$405,216	$822,120	$1,402,999	$1,426,375	$1,449,750	$1,469,269	$1,484,930	$1,500,591	$1,508,421	$1,508,421
24 Revenue Deficiency (Annual)		($281,720)	($70,327)	$103,708	$117,748	$131,885	$147,294	$160,128	$173,527	$183,427	$189,389
25 Revenue to Cost Ratio		59.0%	92.1%	108.0%	109.0%	110.0%	111.1%	112.1%	113.1%	113.8%	114.4%
26 CONTRIBUTION REQUIREMENT											
27 Total Contribution Required	$0										

Rural Expansion Financial Feasibility Test

	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15	YEAR 16	YEAR 17	YEAR 18	YEAR 19	YEAR 20
1 **Town(s): Ste. Agathe &**										
2 **Manitoba Interlink Industrial Park**										
3 OPERATING ASSUMPTIONS										
4 Number of Customers	115	115	115	115	115	115	115	115	115	115
5 Annual Volume (Mcf)	453,468	453,468	453,468	453,468	453,468	453,468	453,468	453,468	453,468	453,468
6 Projected Revenues	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421
7 RATE BASE										
8 Gross Fixed Assets	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720
9 Accumulated Depreciation	$632,959	$691,065	$749,172	$807,279	$865,386	$923,492	$981,599	$1,039,706	$1,097,812	$1,155,919
10 Contributions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
11 Working Capital Allowance	$45,289	$45,277	$45,265	$45,252	$45,240	$45,228	$45,215	$45,203	$45,191	$45,178
12 Rate Base	$1,411,104	$1,352,985	$1,294,866	$1,236,747	$1,178,628	$1,120,508	$1,062,389	$1,004,270	$946,151	$888,032
13 REVENUE DEFICIENCY CALCULATION										
14 Revenue Requirement	$1,312,990	$1,306,871	$1,300,678	$1,294,415	$1,288,083	$1,281,687	$1,275,229	$1,268,710	$1,262,133	$1,255,502
15 Cost of Gas	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773
16 Operating & Maintenance Expenses	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100
17 Depreciation Expense	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107
18 Amortization of Contributions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
19 Municipal Tax & Corp.Cap. Tax	$25,083	$24,792	$24,502	$24,211	$23,921	$23,630	$23,339	$23,049	$22,758	$22,468
20 Income Taxes	$54,804	$54,541	$54,204	$53,796	$53,321	$52,781	$52,178	$51,515	$50,794	$50,019
21 Overall Return	$135,123	$129,658	$123,993	$118,427	$112,862	$107,297	$101,731	$96,166	$90,601	$85,035
22 Total Revenue Requirement	$1,312,990	$1,306,871	$1,300,678	$1,294,415	$1,288,083	$1,281,687	$1,275,229	$1,268,710	$1,262,133	$1,255,502
23 Projected Revenues	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421
24 Revenue Deficiency (Annual)	$195,432	$201,551	$207,743	$214,007	$220,338	$226,734	$233,193	$239,712	$246,288	$252,920
25 Revenue to Cost Ratio	114.9%	115.4%	116.0%	116.5%	117.1%	117.7%	118.3%	118.9%	119.5%	120.1%
26 CONTRIBUTION REQUIREMENT										
27 Total Contribution Required										

Rural Expansion Financial Feasibility Test

	YEAR 21	YEAR 22	YEAR 23	YEAR 24	YEAR 25	YEAR 26	YEAR 27	YEAR 28	YEAR 29	YEAR 30
1 **Town(s): Ste. Agathe &**										
2 **Manitoba Interlink Industrial Park**										
3 **OPERATING ASSUMPTIONS**										
4 Number of Customers	115	115	115	115	115	115	115	115	115	115
5 Annual Volume (Mcf)	453,468	453,468	453,468	453,468	453,468	453,468	453,468	453,468	453,468	453,468
6 Projected Revenues	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421
7 **RATE BASE**										
8 Gross Fixed Assets	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720	$1,969,720
9 Accumulated Depreciation	$1,214,026	$1,272,133	$1,330,239	$1,388,346	$1,446,453	$1,504,560	$1,562,666	$1,620,773	$1,678,880	$1,736,987
10 Contributions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
11 Working Capital Allowance	$45,166	$45,153	$45,141	$45,129	$45,116	$45,104	$45,092	$45,079	$45,067	$45,055
12 Rate Base	$829,913	$771,794	$713,675	$655,556	$597,437	$539,316	$481,198	$423,079	$364,960	$306,841
13 **REVENUE DEFICIENCY CALCULATION**										
14 Revenue Requirement	$1,248,817	$1,242,081	$1,235,297	$1,228,465	$1,221,589	$1,214,669	$1,207,707	$1,200,706	$1,193,666	$1,186,590
15 Cost of Gas	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773	$1,013,773
16 Operating & Maintenance Expenses	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100	$26,100
17 Depreciation Expense	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107	$58,107
18 Amortization of Contributions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
19 Municipal Tax & Corp.Cap. Tax	$22,177	$21,887	$21,596	$21,306	$21,015	$20,725	$20,434	$20,144	$19,853	$19,563
20 Income Taxes	$49,190	$48,310	$47,381	$46,406	$45,385	$44,321	$43,215	$42,070	$40,886	$39,665
21 Overall Return	$79,470	$73,905	$68,340	$62,774	$57,209	$51,644	$46,078	$40,513	$34,948	$29,382
22 Total Revenue Requirement	$1,248,817	$1,242,081	$1,235,297	$1,228,465	$1,221,589	$1,214,669	$1,207,707	$1,200,706	$1,193,666	$1,186,590
23 Projected Revenues	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421	$1,508,421
24 Revenue Deficiency (Annual)	$259,604	$266,340	$273,125	$279,956	$286,833	$293,753	$300,714	$307,715	$314,755	$321,832
25 Revenue to Cost Ratio	120.8%	121.4%	122.1%	122.8%	123.5%	124.2%	124.9%	125.6%	126.4%	127.1%
26 **CONTRIBUTION REQUIREMENT**										
27 Total Contribution Required										

APPENDIX "B"

NATURAL GAS SERVICE AGREEMENT

This Agreement made as of the 21 day of July, 1997.

Between:

CENTRA GAS MANITOBA INC.
(hereinafter referred to as "Centra Gas")

of the first part,

-AND-

CANADIAN AGRA FOODS INC. and
CANADIAN AGRA VEGETABLE OIL & FOODS INC.,
(jointly and severally hereinafter referred to as "Canadian Agra")

of the second part.

WHEREAS Canadian Agra is constructing a canola crushing and refining plant ("the Facility") located at or near Ste. Agathe, Manitoba and requires natural gas service in the operation thereof;

AND WHEREAS Canadian Agra wishes to obtain natural gas service from Centra Gas to serve the Facility;

AND WHEREAS Centra Gas proposes to construct and operate a natural gas distribution system in and around Ste. Agathe, Manitoba.

NOW THEREFORE in consideration of the covenants herein contained, the parties hereto jointly and severally agree as follows:

1. DEFINITIONS

1.1 In this Agreement, the following terms shall have the following meanings:

(a) "Monthly Billing Demand" means the highest consumption measured in cubic meters on any given day of the month, provided the month is a winter month, or in any winter month of the preceding eleven months that will be used for calculating the Monthly Demand Charge.

(b) "Monthly Demand Charge" means a monthly charge that reflects the Customer's use of the capacity of the system. The Monthly Demand Charge is calculated by multiplying the unit Demand Charge by the greater of the Monthly Billing Demand or the Minimum Firm Daily Contract Demand as set out in the attached Schedule "B", which schedule forms part of this Agreement.

(c) "Winter Months" means the months of November, December, January, February and March.

(d) "Basic Monthly Charge" means a fixed monthly charge that reflects a portion of the costs of being connected to the gas distribution system and is not related to the volume of gas consumed.

(e) "Minimum Monthly Bill" is the Basic Monthly Charge plus the Monthly Demand Charge.

2. OBLIGATION OF CENTRA GAS

2.1 Pursuant to the terms and conditions of this Agreement, Centra Gas agrees to provide and Canadian Agra agrees to take natural gas service for the Facility.

2.2 It is acknowledged, covenanted and agreed by the parties hereto that Centra Gas's obligation to provide natural gas service to Canadian Agra at the Facility is subject to the following conditions precedent:

(i) THAT Centra Gas shall have obtained any and all necessary franchises, permits, consents or approvals, including but not limited to, any and all regulatory approvals which are required in order to provide natural gas service (including the provisions of this Agreement), on terms satisfactory to Centra Gas.

(ii) THAT Centra Gas shall have obtained lands and the appropriate easements which it requires in order to construct a natural gas system to Canadian Agra's Facility, on terms satisfactory to Centra Gas.

(iii) THAT Centra Gas shall have obtained any and all necessary arrangements for natural gas upstream of the Centra Gas system, on terms satisfactory to Centra Gas.

(iv) THAT Centra Gas shall have applied to, and have final approval granted by, TransCanada Pipe Lines Limited ("TCPL") for a station to be constructed to serve the Facility.

(v) THAT TCPL shall have obtained all necessary regulatory approvals together with all necessary permits, consents, lands, or easements which are required to provide natural gas to Centra Gas, and shall have constructed any and all necessary facilities required to provide natural gas to Centra Gas.

3. TERM OF AGREEMENT AND ELECTION OF SERVICE

3.1 This agreement shall be in effect as of the day and year first above written, and shall remain in full force and effect for five (5) years commencing from the date when natural gas is first made available to the Facility.

3.2 Canadian Agra requests Centra Gas to provide ______High Volume Firm Sales______ Service to the Facility.

3.3 Canadian Agra shall have the opportunity to exercise a direct purchase option for natural gas supply through Buy/Sell Service subject to appropriate written notice being given to Centra Gas.

3.4 Centra Gas shall use best efforts to provide natural gas service as soon as reasonably possible, provided always however that Centra Gas reserves the right to delay or reschedule any construction if at Centra Gas's sole discretion it is necessary to do so to minimize winter construction costs. Centra Gas makes no guarantee as to the actual in-service date.

4. GENERAL TERMS AND CONDITIONS FOR NATURAL GAS SERVICE

4.1 Canadian Agra and Centra Gas shall be bound by the provisions of the Terms and Conditions for Natural Gas Service as attached in Schedule "A", which schedule forms part of this Agreement, provided always however, where the provisions of this Agreement conflict with Schedule "A", the provisions of this Agreement shall prevail.

4.2 Canadian Agra shall pay to Centra Gas in respect of the service provided, the rate for service as approved by the Manitoba Public Utilities Board and in effect at the time, for the appropriate customer class as designated by Centra Gas plus applicable taxes, provided always however, that the Monthly Demand Charge shall be calculated as outlined in section 1.1 (b) herein.

4.3 The Rates for Service in effect as of March 1, 1997 are shown in the attached Schedule "B", and said Rates are subject to change from time to time upon Order of the Board.

4.4 Centra Gas reserves the right to, acting reasonably, designate the appropriate customer class for the Facility, and this contract may be amended accordingly.

4.5 In the event of a material breach of this Agreement, which breach is not remedied within ninety (90) days, or should Canadian Agra elect to terminate this agreement, Canadian Agra shall pay to Centra Gas an amount equal to sixty (60) times the Minimum Monthly Bill, less any payments for Basic Monthly Charges and Monthly Demand Charges received up to and including the time of the breach, such sum being a genuine pre-estimate of liquidated damages and not as a penalty.

4.6 Centra Gas shall not be obligated to deliver to the Facility, on any one day, any gas in excess of the Maximum Daily Contract Demand, or in any one hour, any gas in excess of the Maximum Hourly Flow, both as set out in Schedule "B" attached hereto.

4.7 Prior to 9:00 a.m. Winnipeg time each day, Canadian Agra will advise Centra Gas by telephone of the reading of Centra Gas's meter at the Facility as of 8:00 a.m., Winnipeg time, on that day. Centra Gas has the right to request, and Canadian Agra will provide, meter readings at any time during any day.

4.8 Canadian Agra agrees to provide and maintain, at no cost to Centra Gas, any and all facilities which Centra Gas requests in order to connect Centra Gas's metering equipment to the telephone utility system, for the purposes of telecommunication of meter reading data to Centra Gas.

4.9 Canadian Agra agrees that natural gas shall exclusively be used as the sole material combustible energy source for processing and heating application at the Facility, and shall be used in lieu of any and all other energy sources, provided that such natural gas is available for delivery, for so long as this Agreement is in effect.

4.10 The Terms and Conditions of Natural Gas Service are subject to regulatory oversight by the Board, which terms and conditions may be altered, amended or revised from time to time by Order of the said Board and the parties agree to be bound by such Terms and Conditions.

5. FORCE MAJEURE

5.1 Except with regard to the Consumer's obligation to make payments in accordance with Section 4 of the Natural Gas Service Agreement, in the event either party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, it is agreed that, upon such party's giving notice and full particulars of such force majeure as promptly as reasonably practicable after the occurrence of the event relied on, the obligations of the parties insofar as they are affected by such force majeure shall be cancelled during the continuance of any inability so caused from its inception but for no longer period and only to the extent such obligations were to be performed during the continuance of such force majeure. The term "force majeure" means acts of God, strikes, lockouts, or industrial disputes or disturbances, riot, civil disturbances, an act of omission (including failure to deliver gas) of a supplier of gas to the Company, interruptions by government or court orders, necessity for compliance with any court order, law statute, ordinance or regulation promulgated by a governmental authority having jurisdiction and which by the exercise of due diligence of the party claiming force majeure could not have been prevented or is unable to be overcome.

6. GENERAL

6.1 The rights and the obligations of either party under this Agreement may be assignable only with the prior written consent of the other party, provided however, that such consent shall not be unreasonably withheld.

6.2 This Agreement constitutes the entire agreement by the parties and no variation or modification of this Agreement shall be valid unless made in writing by their duly authorized officers.

6.3 The address of each of the parties hereto for the purpose of giving notice in accordance with this Agreement is as follows:

Centra Gas: Centra Gas Manitoba Inc.
510-444 St. Mary Avenue
Winnipeg, Manitoba
R3C 3T7
Attention: Manager, Industrial/Large Commercial Markets
Telephone: (204) 925-0597
Telecopier: (204) 925-0810

Consumer: Canadian Agra Foods Inc. and
Canadian Agra Vegetable Oil & Foods Inc.
P.O. Box 421
Kincardine, Ontario
N2Z 2Y0
Attention: Mr. Brian Cuddy, President & C.E.O.
Telephone: (519) 396-6700
Telecopier: (519) 396-6702

6.4 This Agreement shall be governed by the laws of the Province of Manitoba.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first written above as attested to by their proper signing officers in that behalf.

CENTRA GAS MANITOBA INC.

Per: ______________________
Vice-President

Per: ______________________

CANADIAN AGRA FOODS INC.

Per: ______________________

Per: ______________________

CANADIAN AGRA VEGETABLE OIL & FOODS INC.

Per: ______________________

Per: ______________________

CENTRA GAS MANITOBA INC		
YEAR	SEAL NO.	DOC. NO.
97	–	920

Approved
For Content
For Legal

SCHEDULE "A"
Terms and Conditions for Natural Gas Service

I. Definitions

A. "Company" shall mean Centra Gas Manitoba Inc. and its respective successors and assigns.

B. "Consumer" shall include any person, firm or corporation to whom gas is delivered by the Company.

C. "Consumer Premises" or "Premises" shall mean the location specified in an application for service, or such other location to which the Company delivers gas.

D. "Gas" shall mean natural gas having a gross heating value of not less than 36 megajoules per cubic metre (950 Btu per cubic foot).

E. "Small General Service" shall mean gas service at one point of delivery and separately metered where the meter in use is of the type and capacity generally installed for individual residences.

F. "Large General Service" shall mean gas service at one point of delivery and separately metered where the meter in use is of the type and capacity generally not installed for individual residences.

G. "Special Contract" shall mean an agreement in writing between the Company and a Consumer governing gas service to the Consumer, and includes a Buy/Sell Contract and a Transportation Service Contract.

H. "Interruptible Service" shall mean gas service at one point of delivery and separately metered where the service may be interrupted by the Company from time to time upon notice to the Consumer.

I. "Service Line" shall mean that portion of the Company's distribution system used for the transport of gas from the main to the inlet side of the meter assigned to the Consumer.

II. Contract for Service

A. General

1. These Terms and Conditions shall apply to all contracts for gas service under any of the Company's rate schedules or service classifications, including Special Contracts; provided that if the provisions of any Special Contract conflict with these Terms and Conditions, the provisions contained in the Special Contract shall prevail.
2. These Terms and Conditions may, subject to approval by the Public Utilities Board of Manitoba, be added to, altered or amended by the Company from time to time and any such addition, alteration or amendment shall become effective upon Order of the Board.

B. Easements and Rights-of-Way

1. If before the point of entry at the Premises a service line must cross property owned by some person other than the Consumer, the Company shall obtain from such person a written consent or easement for the installation and maintenance of the service line and related facilities.
2. If the Consumer is not the registered owner of the Premises, the Consumer shall obtain for the Company from the said owner the necessary consent or easement in writing for the installation and maintenance in said Premises of all necessary facilities for supplying gas; provided that the Company may, at its option, itself acquire such consent or easement.

C. Assignment

All contracts for service shall be binding upon, and enure to the benefit of, the parties thereto and their respective successors and assigns, but shall not be assigned or be assignable by the Consumer without the consent in writing of the Company first being obtained. The Company may condition its consent upon the assignor (i.e. Consumer) not being in default hereunder.

D. **Representation**

No agent, representative, or employee of the Company has authority to make any promise, agreement or representation not incorporated herein, and any such promise, agreement or representation shall not bind the Company.

E. **Use of Gas**

The Consumer shall not use or permit the use of gas supplied by the Company in any location or for any purpose other than as approved by the Company.

F. **Rates and Charges**

In connection with a contract for gas service, the Consumer shall pay the Company at the rates approved from time to time by the Public Utilities Board of Manitoba or other regulatory body having jurisdiction, and shall pay any other charges validly in effect from time to time.

G. **Utilities Act to Prevail**

The provisions hereof are subject at all times to The Public Utilities Board Act (Manitoba) as amended from time to time, or such other legislation as may be enacted in replacement thereof. In the event of any conflict between the provisions of these Terms and Conditions, and the provisions of the said Act, or any lawful Order of the Public Utilities Board, the provisions of the said Act or Order shall prevail.

III. Service Connection and Charges

A. **Authority for Work**

No changes, extension, replacements, repairs, connections or disconnections to, of or from, the Company's system shall be made except by the Company's authorized employees by other persons authorized in writing by the Company.

B. **Installation Policy**

Subject to Paragraph III c), where the Company's main is adjacent to the Consumer Premises, the Company will install, at no cost to the Consumer, a service line from the main to a meter location selected by the Company, except that where the distance from the property-line crossed by the service-line to the entry-point exceeds forty-six metres (150 feet), the Company may invoke and the Consumer shall pay an excess distance charge. The Company reserves the right to conduct an individual feasibility study on each applicant and charge an applicable contribution in aid of construction which contribution shall be paid prior to commencement of construction.

C. **Right of Refusal to Install**

The Company may refuse to install a service line, if, in the Company's opinion, such installation is not reasonable and practicable and would not furnish sufficient business to justify the construction and maintenance thereof, and neither acceptance of an application form nor any cash deposit from the Consumer shall be construed as a commitment by the Company to install any service line.

D. **Location of Service and Meter**

The Company will designate the location of the service lines, meters and regulators, and will determine the amount of space that must be left unobstructed for the installation and maintenance of such equipment.

E. **Additional Charges**

Where the Consumer requests that the service line enter the Premises at a point or follow a route different from that chosen by the Company, the Company may charge the Consumer for all extra costs incurred in installing the service line in accordance with the Consumer's request, provided that nothing herein obligates the Company to install the service line to such alternate point or along such alternate route.

F. **Meters Installed Within Premises**

If the Company has designated an inside meter location, the meter will be installed as close to the service entry point as allowed by existing codes and regulations. Where the Consumer desires a meter location beyond that chosen by the Company, the Consumer will be charged the cost of installing all piping in excess of the amount required by the Company's choice of location. All piping between the main and the meter remains the property of the Company.

G. **Additional Meters Installed Within Premises**

Additional meters may be installed on request at the Consumer's expense. The Company reserves the right to refuse installation of additional meters where such installation is not reasonably necessary for the Consumer's purposes.

H. **Access to Property**

The Consumer grants the Company full power, right and liberty to enter the lands upon which the Premises are situated to break the surface and make necessary excavations for the purpose of locating, installing, repairing, replacing, maintaining and inspecting all facilities on the said lands. The Company shall do as little damage and cause as little inconvenience as is reasonably possible in doing such work and shall restore the property, as nearly as is reasonably practicable, to its former state.

I. **Timing of Installation**

The Company reserves the right to defer or refuse the installation of service when by reason of weather or conditions of excavation and/or construction beyond its control, it is deemed inadvisable to install facilities.

J. **Gratuities**

Employees of the Company are expressly forbidden to solicit or accept any gratuities.

IV. Measurement, Billing and Payment

A. **Meters and Regulators**

The Company shall install on the Consumer's Premises at a point to be selected by the Company, such meter(s) and regulator(s) as the Company deems necessary, which shall be and remain the property of the Company.

B. **Testing Measurement Equipment**

In the event that the Consumer requests under the Electricity and Gas Inspection Act for the testing of the measurement equipment, and by such testing it is found that the measurement equipment is recording within the allowable tolerances as specified in the regulations under said Act, all previous readings shall be deemed to be correct and the Consumer shall forthwith pay to the Company its charge for testing and changing the equipment.

C. **Testing Measurement Equipment (continued)**

If the measurement equipment is found to be recording outside of allowable tolerances, the cost of testing and changing the meter will be borne by the Company and a correction in billing shall be made as set out in (d) hereof.

D. **Meter Reading**

Meters shall be read with such frequency as the Company may decide. The Company shall have the right at any time to estimate Consumer consumption and to render a bill based upon such estimated consumption. Should the number of consecutive estimated readings exceed five the Company shall, subject to its ability to gain access to the Consumer's Premises, read the meter, and the Consumer shall cooperate with the Company to ensure that the meter is so read. Notwithstanding the foregoing, the Company may, at its option, require the Consumer to read the meter and to report such reading in the manner specified by the Company.

E. **Failure of Measurement Equipment to Register Properly**

If the measurement equipment ceases to register properly, the quantity of gas used will be determined by the amount consumed during the corresponding period of the previous month(s) or year(s), giving due consideration to the weather and connected load, or if no such information exists, such amount shall be determined according to the Company's best estimate, having regard to all the circumstances. A correction in billing shall be made for the period that the measurement equipment failed to register properly not exceeding 2 years retroactive from the date of discovery.

F. **Billing**

Bills will be rendered monthly or bi-weekly at the option of the Company and the Consumer shall pay rendered accounts by the due date as specified on the bill. The Company will assess a late payment charge as specified in the rate schedule on all accounts remaining unpaid after due date. The Company's records of the date of mailing or delivery of bills shall be conclusive evidence of the date of rendering. For purposes of computing monthly bills, "month" shall mean a billing period of approximately 30 days.

G. **Guarantee Deposit**

Applicants for the supply of gas may, at the option of the Company, be required to provide a guarantee of payment in the form of a deposit. The amount of such deposit shall not normally exceed the total of estimated billings to the Consumer for the three month period of maximum consumption. Special deposit amounts may be assessed at the discretion of the Company. The deposit is security against any outstanding indebtedness of the Consumer, and may, at the Company's discretion, be held by the Company until the Consumer discontinues the use of gas at the Premises and the contract is terminated; or the deposit or part thereof may be applied from time to time against the outstanding indebtedness of the Consumer and any amount so applied shall forthwith be paid to the Company by the Consumer to replenish such deposit. The amount of such deposit is not transferable or assignable.

The Company shall annually credit interest on the guarantee deposits at a rate equivalent to the current savings account interest rate employed by the Company's principal bank as at the last day of the month prior to the date of annual credit to the Consumer.

The deposit shall cease to draw interest at the earliest of the date it is returned to the Consumer, the date notice is sent to the Consumer's last known address that the deposit is no longer required, the date the deposit is applied against the outstanding indebtedness of the Consumer or the date when service is final billed.

In the event of termination of the contract between the Company and the Consumer, such deposit plus accrued interest determined as provided above, will be refunded, less any amount owing the Company.

H. **Budget Billing Plan**

The Company may in its discretion, permit the Consumer to pay fixed monthly installments on account of gas consumed or to be consumed by the Consumer during all or any part of a period.

The Company shall fix the amount of the monthly installments on the basis that the installments to be paid shall total the sum which would be payable under the Company's rate schedule for the amount of gas which the Company estimates would be consumed on the Premises during the period in which the Consumer is to pay such installments (herein called "the budget period").

The Budget Billing Plan shall be terminable by the Consumer at any time by giving seven (7) days' prior notice of termination to the Company, and shall be terminable by the Company at any time in the event that the Consumer ceases to be a Consumer, or if the Consumer has not maintained payment of installments to the Company's satisfaction.

Upon the expiration of the budget period, or its earlier termination as aforesaid, the amount that would be payable to the Company by the Consumer pursuant to the rate schedule for gas actually consumed from the beginning of the budget period to its end or earlier termination, shall be compared with the aggregate of the monthly installments actually paid by the Consumer during such time, and if the amount payable exceeds the aggregate of the amounts actually paid, such excess shall be paid by the Consumer to the Company, or if the amount actually paid exceeds the amount payable, such excess shall be paid or credited by the Company to the Consumer.

The Company may at any time revise its estimate of a Consumer's gas consumption, and accordingly may increase or decrease the amount of the monthly installments payable by the Consumer. In addition, the monthly installments may be adjusted to reflect approved rate changes.

I. **Returned Cheques**
When Consumers' cheques are returned by banks or other financial institutions for reasons beyond the control of the Company, a return cheque charge will be assessed to the Consumer. The amount of this charge will be as determined from time to time by the Company.

J. **Taxes**
The rates and charges referred to in these Terms and Conditions do not include taxes required to be separately shown on the Consumers' billing, and which the Company may be lawfully required to collect from Consumers.

V. Other Charges or Payments

The Company shall provide the following services:

A. Locate and mark all underground plant on request to facilitate excavation or other construction at no charge.

B. Respond at no charge, on a 24-hour emergency basis, to reports of gas odor, leak, fumes, over-pressure, overheating of space-heating equipment or damaged plant, or any other service which, in the Company's opinion, is required to ensure public safety and the maintenance and security of Company equipment.

C. Provide adjustment service to the gas burning portion of all residential appliances and commercial appliances under 400,000 Btu/h (422 MJ/h). This includes the re-lighting of pilot lights, repairs of minor gas leaks, and the adjustment and replacement of controls and control parts. The Small General Service Consumer will be responsible for the cost of parts. All other Consumers will be responsible for the cost of parts and labour.

D. Service to commercial or industrial equipment over 400,000 Btu/h (422 MJ/h) will not normally be undertaken; however the Company will respond to commercial emergencies such as re-light calls where business might be adversely affected by prolonged interruption of service. The Consumer will be responsible for the cost of parts and labour.

All other services provided by the Company to the Consumer shall be charged to the Consumer at rates in effect from time to time.

VI. Equipment

A. Ownership of Equipment

The title to all service lines, meters, regulators, attachments and equipment placed on the Consumer's Premises shall remain in the Company, with right of removal, and no charge shall be made by the Consumer for use of Premises occupied thereby. This paragraph shall not apply to equipment sold directly to the Consumer by the Company.

B. Protection of Company-owned Equipment on Consumers' Premises

1. Maintenance of service lines, meters and regulators or any other Company-owned equipment shall be the responsibility of the Company. The Consumer shall be responsible for all damage to equipment on the Premises except for deterioration from normal usage or damage attributable to matters beyond the Consumer's control.

2. If the Consumer undertakes to renovate, reconstruct or modify the Premises in such a way as to render Company equipment non-compliant with any existing codes or regulations, the Company will make any corrections necessary to its equipment so that it conforms to the said codes and regulations and the Consumer shall be responsible for the cost of such corrections.

C. Moving Meters

The Company may charge the Consumer the cost of moving a meter from one location to another in the event such move is made at the request of the Consumer.

D. Access to Premises

In cases of perceived emergency, the Company is authorized to enter upon the Premises in the absence of the Consumer and is authorized to use such force as may be necessary to obtain access to its equipment for inspection, disconnection, and repair. All such instances shall be reported to the local police authorities immediately by the Company.

E. Termination of Service

If the supply of gas is terminated for any reason, the Company, may, but shall not be obligated to, remove the service line. Where the service line is not removed, the Company shall effectively seal it off in compliance with applicable government regulations.

F. Rental Equipment

The title to all equipment supplied by the Company under a Rental Agreement and placed on the Consumer's Premises shall remain with the Company with right of removal, and no charge shall be made by the Consumer for use of Premises occupied thereby.

VII. Discontinuance of Service

A. Reasons for Discontinuance

The Company reserves the right to temporarily or permanently discontinue the supply of gas or to remove its property from the Consumer Premises, or both, for any of the following reasons:

1. Failure, temporary or permanent, of the availability of gas;
2. Necessary repairs on any point on its system;
3. Non-payment by the Consumer of any indebtedness when due;

4. Failure of the Consumer to pay any guarantee deposit or increase thereof forthwith on demand;
5. Bankruptcy or insolvency of the Consumer;
6. Use by the Consumer of defective pipe, appliances, gas fittings, or installations contravening prescribed codes and regulations, or the demand by the Consumer for the supplying of gas in such manner as may be in the Company's opinion likely to lead to a dangerous situation;
7. Use of gas contrary to the terms of these Terms and Conditions or to any Special Contract made with the Consumer;
8. Misrepresentation by the Consumer in relation to the use of gas or the amount consumed;
9. Moving of Consumer from the Premises;
10. Inability of the Company to gain admittance to the Premises to read the meter for a period of six consecutive months;
11. Termination in any manner of the contract of service;
12. Discontinuance of the use of gas on the Premises;
13. Fire, flood, explosion or other emergency in order to safeguard persons or property against the possibility of injury or damage;
14. Theft of services.

B. **Reconnect Fees**

On each occasion when gas service is discontinued at the Consumer's request or as a result of failure of the Consumer to comply with these Terms and Conditions, and service is subsequently resumed to the Consumer at the same Premises, a reconnect fee will be charged. In the event that the meter and regulator are removed and replaced on the same Premises within one year of removal, the Company may charge a fee for resetting the meter and regulator. Until such charges, together with any other indebtedness of the Consumer to the Company are paid, the Company may, at its discretion, refuse to reconnect the service or to supply gas.

VIII. Responsibility of Parties

A. **Transfer of Risk, Title and Possession**

Title to the gas and all risk in respect thereto shall remain with the Company until the gas is delivered to the Consumer at the outlet of the meter at the Premises, at which point title and risk shall pass to the Consumer.

B. **Damages to Service Line**

Subject to Paragraph 6 (a), it is understood and agreed that it is the responsibility of the Consumer to know the location of the service line, meters and regulators on the Consumer's property. The Consumer shall be responsible for all damage to Company property on the Premises and agrees to notify the Company immediately of any damage occurring thereto, and shall pay the cost of any repairs to such Company property except where such damage or cost of repairs is attributable to normal usage or circumstances beyond the control of the Consumer.

C. **Waste of Gas**

The Consumer shall use due care to prevent any waste of gas and will immediately notify the Company in case of failure or deficiency of supply or leakage of gas.

SCHEDULE "B"
DELIVERY POINT AND GAS FLOW

Schedule "B" attached to and forming part of a Natural Gas Service Agreement made the 21st day of July, 1997.

Between:

CENTRA GAS MANITOBA INC.

AND

CANADIAN AGRA FOODS INC. AND
CANADIAN AGRA VEGETABLE OIL & FOODS INC.

Delivery Point

Location: ____________________
____
____

Meter # ____________________
Account # ____________________

Type of Service

Firm Sales Service:

Classification	High Volume Firm Sales Service
Applicable billing rate as of	March 1, 1997
Basic Monthly Charge	\$831.04/month
Monthly Demand Charge	\$0.3902/peak m^3/month
Commodity Charge	\$0.1065/m^3

Rates are subject to change from time to time upon order of the Manitoba Public Utilities Board.

Minimum Firm Daily Contract Demand

Minimum Firm Daily Contract Demand	18,000 m^3 per day

Gas Flow

Maximum Daily Contract Demand	96,000 m^3 per day
Maximum Hourly Flow	4,000 m^3 per hour
Estimated Annual Consumption	4,680,000 m^3 per year
Estimated Monthly Volume	390,000 m^3 per month

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