

MANITOBA | **Order No. 95/00**
THE PUBLIC UTILITIES BOARD ACT | **July 5, 2000**

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

**AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN ORDER
APPROVING AND AUTHORIZING:**

- 1. NEW FRANCHISE AGREEMENTS WITH THE RURAL MUNICIPALITIES OF BIFROST AND WOODLANDS, THE TOWNS OF TEULON AND ARBORG, AND THE VILLAGE OF RIVERTON**
- 2. THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO THE VILLAGE OF RIVERTON, THE TOWNS OF ARBORG AND TEULON, THE LOCAL URBAN DISTRICT OF WARREN, AND THE RESIDENCES AND BUSINESSES IMMEDIATELY ADJACENT TO THE COMMUNITIES OF RIVERTON AND ARBORG, IN THE RURAL MUNICIPALITY OF BIFROST**
- 3. APPROVING AND AUTHORIZING A CONNECTION FEE SCHEDULE TO BE USED BY CENTRA TO CHARGE AND COLLECT CONNECTION FEES FROM CUSTOMERS IN THE VILLAGE OF RIVERTON, THE TOWNS OF ARBORG AND TEULON, THE LOCAL URBAN DISTRICT OF WARREN, AND THE RESIDENCES AND BUSINESSES IMMEDIATELY ADJACENT TO THE COMMUNITIES OF RIVERTON AND ARBORG, IN THE RURAL MUNICIPALITY OF BIFROST**

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Attachment A

Executive Summary

In December 1998, Centra applied to The Public Utilities Board of Manitoba (“the Board”) for approval of an expansion project that would take natural gas to the communities of Grosse Isle, 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 (“RMs”) of Rockwood and Woodlands and the Town of Teulon.

Estimated capital cost for Phase I of Stage I of the project was approximately \$7,796,285. The capital costs were to be substantially funded through federal, provincial, municipal and customer contributions of \$2,350,000, \$2,350,000, 4,247,465, and \$332,000 respectively which included an additional \$2,035,000 for cost overruns and further rural expansion in Phase II of Stage I. Centra was to contribute \$552,454. Stage II project costs were estimated to be \$6,194,607. As no feasibility test for Phase II of Stage I was included in that Application, the Board in Order 115/99, directed Centra to gather this information and refile the Application.

The revised Application was filed on February 17, 2000, but prior to that date the RM of Rockwood withdrew from the project, and the project scope was revised to bring service to the Communities of Teulon, Warren, Arborg, Riverton and the residences and businesses immediately adjacent to Arborg and Riverton. The new system design provided for some additional expansion, but the feasibility test did not include any rural attachments. The surcharge was eliminated, and the revised capital cost of \$7,300,744 was to be substantially funded through federal, provincial, municipal and customer contributions of \$2,350,000, \$2,350,000, \$1,014,183, and \$496,552 respectively. Centra’s contribution would be \$1,090,009.

As a result of these changes in scope, capital costs decreased from approximately \$14.0 million to approximately \$7.3 million for the revised project.

The Board was of the view that the current Application was significantly different from the one addressed in Order 115/99. There had been substantial changes to the geographic regions served, the design assumptions, the costs, and the funding arrangements. Therefore, the Board has considered this Application on a stand-alone basis. The Board has approved franchise agreements for the Towns of Teulon and Arborg, the Village of Riverton, and RMs of Bifrost and Woodlands.

Since the conclusion of the public hearing natural gas prices have increased significantly. The Board currently has an Application before it, by Centra, seeking up to a 17.9% increase in rates for residential consumers and approximately 25% for other customer classes. The cost of gas embedded in the franchise application is \$3.03/gigajoule. Centra's current cost of gas is approximately \$4.94/gigajoule.

Given the recent increases in the commodity price of natural gas and the current level of residential sign-ups, there are serious questions respecting the projected level of customer attachments included in the feasibility test. Accordingly, the Board expected Centra to reconfirm the commitment of customers who have already signed up to receive natural gas service in light of the changed economics of converting to natural gas. In addition, the Board has directed Centra to achieve sign-ups equivalent to projected year two volumes of the revised feasibility test before project construction begins.

The Board has also directed Centra to complete a customer survey of the village of Woodlands and align the design parameters with customer projections. A revised feasibility test may be required to reflect the results of the Board directives.

The Board is satisfied that the federal, provincial, and municipal funding arrangements are in order and that the municipal funding better matches the costs of the project to residents who will enjoy either the direct and indirect benefits of natural gas service.

The connection fee schedule sets residential fees at \$500 and commercial fees starting at \$750 based on annual consumption, but waives school connection fees and caps public building connection fees at \$1,500. The Board has approved this schedule, and requires these connection fees be applied consistently for future expansion projects in the Interlake area.

The Board thanked the intervenors and presenters for their hard work and involvement in this process. The presenters were, for the most part, local residents and business owners who took the time and effort to present their views at the public hearing.

1.0 Appearances

R. Peters	Counsel for The Public Utilities Board of Manitoba (“the Board”)
M. Murphy	Counsel for Centra Gas Manitoba Inc (“Centra”)
K. Saxburg	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”)
R. Stefanson	Representing Bifrost Ratepayers Association (“BRA”)
B. Fleury and M. Christian	On their own behalf

2.0 Witnesses

2.1 Witnesses for Centra Gas Manitoba Inc.

G. Rose	Vice-President, Customer Service and Marketing, Manitoba Hydro (“Hydro”)
L. Stewart	Manager, Senior Project Development, Centra
D. Kroeker	Manager, Gas Distribution Construction, Centra
D. Rainkie	Manager, Regulatory Business Advisory Services, Centra

2.2 Witnesses for Interlake Natural Gas Co-op Ltd.

H. Foster	President of ING and Reeve of the Rural Municipality (“RM”) of Bifrost
D. Fridfinnson	Manager
J. Kingdon	President, ChangeMakers

2.3 Witness for B. Fleury and M. Christian

B. Fleury	Resident of the Rural Municipality of Woodlands
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3.0 Intervenors of Record

Bifrost Ratepayers Association

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

Communications, Energy and Paperworkers Union of Canada, Local 681 (“CEPU”)

B. Fleury/M. Christian

Interlake Natural Gas Co-op Ltd.

The Seagram Company

4.0 Presenters

Larry Baker	Citizen	Woodlands
Bernice Baldwin	Citizen	Warren
Colin Bjarnason	Mayor	Riverton
Kerry Church	Manager	Puratone
Tom Chwaliboga	Member	Arborg-Bifrost Recreation Commission
Wayne Doherty	Member	Western Interlake Chamber of Commerce General
Peter Dueck	Citizen	Arborg
Dave Eidick	Manager	Gladstone Austin Natural Gas Co-op Ltd.
Keith Eliasson	Chairperson	Riverton-Bifrost CDC Inc.
Jeff Epp	Owner	Chicken Chef
Leslie Eyolfson	Past President	Keystone Agricultural Producers
Susan Eyolfson	President	Riverton & District Chamber of Commerce
Elizabeth Fleming	President	Provincial Council of Women of Manitoba Inc.
Lorna Floyd	Member	Arborg and District Chamber of Commerce
Steve Gislason	Citizen	Arborg
Andrew Kaus	Economic Development Officer	Arborg-Bifrost Community Development Corporation
Bert Kindierski	Mayor	Town of Arborg
Terry Lindell	Citizen	Warren
Steve Lupky	Chairman	Arborg-Bifrost Community Development Corporation
Bill MacGillivray	Citizen	Warren
Marvin Magneson	Member	RM of Bifrost
Dave McLelland	President	Interlake Development Corporation
Edward Peltz	Reeve	RM of Woodlands

Gordon Rajotte	Member	Philosophy Practice Institute of Manitoba
Don Salkeld	Owner	Northern Goose Processors
Lillian Skulason	Manager	Interlake Real Estate
Cal Surgenor	Citizen	Warren
The Executive	Organization	Warren Curling Club
Lincoln Webb	Director	North East Interlake Community Futures Development Corporation

5.0 Background

In October 1994, the Interlake Development Corporation (a regional economic development agency) organized a meeting with representatives of various Interlake RMs 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. This study suggested that natural gas service 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. In order to pursue the matter further, the ING was formed in late 1996. ING initially consisted of representatives from 14 rural RMs, local government districts, towns, villages, and communities. The business plan was completed in November of 1997 and provided an assessment of potential markets as well as estimated costs and revenues related to extending natural gas service to all areas of the Interlake in several stages.

Centra began working with ING in 1996 and, subsequently, the business plan was revised to include a two stage project. Stage I would extend service to six communities within the RM of Rockwood and the RM of Woodlands in Phase I, and subsequently attach rural customers within RMs of Rockwood and Woodlands in Phase II. Stage II would extend service to the Town of Arborg (“Arborg”) and the Village of Riverton (“Riverton”), in Phase I, and then to the rural areas within the RMs of Bifrost and Gimli in Phase II.

ING negotiated funding arrangements with the federal and provincial governments. ING then determined the required level of municipal contribution, and the funds to be generated through connection fees, a 10% surcharge on sales rates, and tax forgiveness by Evergreen and Interlake School Divisions.

On December 18, 1998 Centra filed an Application with the Board for Phase I of the project that would extend natural gas service to the communities of Grosse Isle (that portion of the community located in Rockwood), Warren, Woodlands, Balmoral, Gunton, and Teulon. Centra's application estimated Stage I capital costs to be \$7,796,285, and initial estimates for Stage II costs to be \$6,194,607, for a total estimated project cost of \$13,990,892.

The Board, in Order 115/99 dated June 24, 1999, granted conditional approval of the Franchise Agreements for the RMs of Rockwood and Woodlands and Town of Teulon ("Teulon"). The Board also approved the implementation of the requested 10% surcharge and directed Centra to collect connection fees. However, the Board did not approve the feasibility test and directed Centra to file a test that would include both Phase I and II of Stage I to demonstrate consistency between estimates used in the feasibility test and those used for design purposes.

In Order 115/99, the Board noted that the funding from senior levels of government provided an excellent opportunity for residential and commercial customers in the Interlake to receive an alternate and cheaper energy source. However, a project of the magnitude envisioned required careful consideration to ensure that the anticipated benefits are realized, and that there is a balance between the costs incurred and the benefits realized by the residents of the area. As a result, the Board outlined a number of concerns, expectations and directives in Order 115/99 to be addressed by Centra and ING prior to proceeding with the project.

Subsequent to Order 115/99 being issued, the RM of Rockwood withdrew from the project, the scope of the project was re-evaluated, and Stages I and II were combined. The scope of the project was revised to include the communities of Arborg, Riverton, Teulon and Warren, as well as the homes and businesses immediately adjacent to the communities of Arborg and Riverton in the RM of Bifrost (the "Communities"). As a result of changes in scope of the

project, capital costs decreased from approximately \$14.0 million to approximately \$7.3 million for the revised project.

6.0 The Application

On February 17, 2000, Centra applied to the Board for an order authorizing and approving:

- Franchise Agreements between Centra and Teulon, Arborg, Riverton, and the RMs of Bifrost and Woodlands.
- A financial feasibility test for the expansion of natural gas service to the Communities.
- A Connection Fee Schedule to be used by Centra to charge and collect connection fees from customers in the Communities.

A public hearing to consider this Application was held in Arborg, Manitoba on May 10, 11, 12, and 16 of 2000. Final arguments were heard on May 17, 2000.

7.0 The Transmission and Distribution System

7.1 System Design and Routing

The system has been designed to provide natural gas service to the Communities by constructing transmission lines from Centra's existing transmission system. The system is designed to serve 70% of the total potential residential customers and 80% of the total potential commercial customers in the Communities. In addition, an allowance for up to 10% growth within the Communities has been added, based on the 10-year potential customer volumes, plus an allowance of 25% for the potential rural load outside of the Communities as identified in the 1997 Cochrane Engineering pre-Design Study.

Centra considered two alternative designs for each of the two transmission lines to serve Teulon and Warren. The first alternative sized each transmission line to meet only the design criteria, did not allow for any spare capacity, and resulted in a combination of 88.9 mm and 60.3 mm steel pipe sizes. The second alternative utilized only 88.9 mm steel line for these communities. Centra stated that the second alternative resulted in estimated incremental costs for Teulon of \$95,000 and additional capacity of 1,650 mcfh. The incremental costs for Warren were \$83,000, which resulted in increased capacity of 950 mcfh. ING requested Centra to proceed with the second alternative.

Centra considered several options for the routing of the transmission lines to Teulon, Warren, Arborg, and Riverton, all of which generally involved locations within existing road right-of-ways, or within newly acquired easements.

All transmission lines will be designed to meet the minimum standard of the CSA Z245 which requires appropriate pipe wall thicknesses and that the lines will be installed using open cut, boring or directional drilling techniques as dictated by site conditions.

The distribution systems will consist of 60.3 mm and 114.3 mm polyethylene (PE) mains, and PE services all to be in conformance with applicable codes and specifications. Distribution lines will be installed by a variety of available techniques dictated by site conditions.

Centra indicated that all necessary environmental approvals for this project have been received, and that all required third party approvals including land easements and construction drawings will be obtained prior to commencement of construction.

7.2 Capital Costs

Centra estimated the project capital costs using past installation experience combined with site investigations. The material cost estimates were based on 1999 supply prices plus a 2% inflation rate to recognize construction proceeding in the year 2000. Centra included a 15% factor for distribution contract labour and material contingencies, a 10% factor for transmission labour and material contingencies and 1% for interest during construction. An 18% overhead allowance included 10% for engineering and construction overhead, 4% for administration, 3% for marketing and 1% for overhead contingencies.

Total project costs, including the cost of attaching customers for the first ten years of the project, are estimated by Centra to be \$7,300,744 as follows:

Transmission plant	\$4,060,553
Distribution plant	1,463,720
Overheads, land rights, inflation and other	1,129,948
Contingency allowance	646,523
	<hr/>
	\$7,300,744
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Centra stated that increased transmission lines costs were attributable to rerouting that was required for the Warren transmission line in order to ensure adequate cathodic protection arising from the proximity of Hydro's HVDC ground bed. Rerouting, parallel and adjacent to PTH Number 222, was also required for that portion of the line extending from the Town of Gimli to the Village of Riverton. Centra testified that the incremental costs related to these routings were approximately \$99,700 and \$62,300, respectively. Centra stated that it would not recalculate the feasibility test as the contingency factor included in the feasibility test would cover these incremental costs.

7.3 System Upgrade by the RM of Gimli

During the hearing, Centra indicated that the RM of Gimli was contemplating extending natural gas service to the north side of the RM, which would require an upgrade to the proposed system design, as presented in this Application. This upgrade would involve installing more 168.3 mm pipe for that portion of the transmission line between the Town of Gimli and the northern border of the RM of Gimli. It was Centra's contention that this upgrade would not impact the Application before the Board because the costs and resulting revenues were not part of the feasibility test. Centra stated that the incremental cost of this upgrade would be approximately \$300,000, and would be fully funded by municipal contributions. No additional upstream upgrades would be required to the existing system for at least 10-years.

Centra stated that it had been involved in discussions with the RM of Gimli for over two years. The RM of Gimli was also invited to be a part of the current Application and to be a current member of ING. The RM declined these invitations.

To accommodate all possible upsizing of pipe in its construction plans, Centra indicated that the RM of Gimli would be required to make its final decision and confirm its funding by the end of May 2000.

8.0 The Franchise Agreements

Centra applied for approval of Franchise Agreements with the RMs of Bifrost and Woodlands, the Towns of Arborg and Teulon, and the Village of Riverton. First reading of the by-laws authorizing the Franchise Agreements were given by each of the RMs in the fall of 1999.

Centra testified that the proposed Franchise Agreements are consistent with the generic form and content of franchise agreements that have been previously approved by the Board. Second and third reading of these by-laws will be sought from each of the RMs should the Board approve the proposed Franchise Agreements.

Centra submitted that it would be the most practical and cost effective manner in which to proceed by obtaining Franchise Agreements for the entire geographic area of the RMs of Bifrost and Woodlands, even though the rural areas in these RMs have not been included in the feasibility test.

Centra testified that once the Franchise Agreements are obtained, Board approval is not required for future expansion within that franchise area. However, Centra stated that it is obligated to demonstrate the prudence of any expansion by filing feasibility tests with the Board for main extensions over 500 meters. These filings, however, do not have to be approved by the Board prior to the extension taking place, and a specific public hearing process is not required.

9.0 The Feasibility Test

9.1 Customer Attachments and Annual Volumes

Customer data used in the feasibility test was developed using surveys conducted in 1999 for Arborg, Riverton, Teulon, and Warren. Centra submitted that the four Communities have 1,148 potential residential customers and 252 potential commercial customers, for a total of 1,400 potential customers, consuming a total potential annual volume of 6,746 10^3m^3 .

Centra stated that it took a conservative approach when determining potential customers for purposes of the feasibility test. Only those occupying existing residential and commercial premises were considered. Mobile homes, vacant homes, and planned future developments have not been included as potential customers. Although there has been steady growth in residential and commercial construction starts in the Communities over the past five years, Centra has not included any volumes in the feasibility test related to future or prospective residential or commercial attachments. Centra does not consider the age of housing stock or demographic information when customer attachments and expected volumes were developed.

For feasibility test purposes, Centra assumed residential attachment rates and volumes of 20% in year one (i.e., by the end of December 2001), 45% by year five and 70% by year 10, and assumed commercial attachment rates of 35% in year one, 50% by year five and 65% by year 10. The corresponding commercial volumes are 50% in year one, 66% in year five and 80% in year 10. Centra assumed that there would be no further customer conversions beyond year 10.

Actual residential and commercial attachments achieved in the communities located in southeastern and southwestern Manitoba were used as a guide when Centra developed attachment projections for the Interlake. The sign-up rates attained in these areas, as compared to those forecasted for the Interlake expansion, are contained below:

	<u>Year One</u>		<u>Year Two</u>		<u>Year Three</u>	
	<u>Residential</u>	<u>Commercial</u>	<u>Residential</u>	<u>Commercial</u>	<u>Residential</u>	<u>Commercial</u>
Southeastern (actual)	40%	68%	50%	78%	55%	84%
Southwestern (actual)	29%	52%	33%	59%	33%	61%
Interlake (projected)	20%	35%	30%	40%	35%	44%

During the hearing, Centra indicated that electricity is the primary energy source of 850 of the 1,148 potential residential customers. Centra has not determined whether the customers using electricity have forced air or baseboard heating systems. Oil is used by 62 homes, propane by five homes, wood by 74 homes, and there are 157 homes using a combination of electricity and wood. Of the 252 potential commercial customers, 180 use electricity as the primary energy source, 13 use oil, 22 use propane, three use wood, 20 use some combination of electricity, oil, propane, and wood, one uses a combination of oil and propane, and information for 13 potential commercial customers was unavailable.

As at the hearing date, 117 residential and 93 commercial customers had signed up for natural gas service representing 51% and 103% respectively of first year targets. Centra defines a “sign-up” or committed customer as one who has completed and signed a Service Application form and has paid the required customer contribution.

Centra continued to use an average annual consumption of 2,832.8 cubic meters for a typical residential consumer 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 to estimate thermal output. This data, when multiplied by the expected annual hours of use, was used to estimate annual natural gas use. Where no other information was available, Centra estimated consumption based on square footage of an existing dwelling.

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	230	518	808	1,148
Percent of total potential volumes	20%	45%	70%	
Annual volumes (10 ³ m ³)	652	1,467	2,287	3,252
Commercial				
Commercial customer attachments	90	128	163	252
Percent of total potential volumes	50%	66%	80%	
Annual volumes (10 ³ m ³)	1,747	2,307	2,797	3,494
Total				
Total customers	320	646	971	1,400
Total annual volume (10 ³ m ³)	2,399	3,774	5,084	6,746

The sales rates used in the revenue estimates are the base rates included in the December 1, 1999 unbundled rates approved by the Board in Order 202/99.

The expected residential and commercial revenues were estimated by multiplying the volume estimates by the components of the unbundled base sales rates for Small General Class (“SGC”) and Large General Class (“LGC”) customer classes. The basic monthly charge is annualized and has been added to expected volumes to arrive at the total expected residential and commercial revenues.

9.2 Other Feasibility Test Costs and Forecast Revenues

Centra stated that it used the Board approved class weighted average cost of gas (“WACOG”) assumption in the feasibility test. However, rather than using the class WACOG for each particular class, Centra used the SGC WACOG for all customers. Centra testified that there is only a \$.0002/m³ difference between the LGC and SGC WACOGs, and the higher number was selected for simplicity and conservatism. There are no potential existing customers in the other customer classes.

Centra continued to use operating and maintenance expenses estimated at \$100 per customer per year for each of the 30 years for a typical town or area adjacent to an existing franchise area.

Depreciation of 2.45% was calculated based on the mix of transmission and distribution capital in the project. Municipal property taxes were determined using current provincial assessed rates.

Centra calculated income taxes using a rate of 46.12% and the Board approved weighted average cost of capital of 8.893% in the calculation. Centra testified that it was appropriate to include income taxes and retain the existing rate of return in the feasibility test given that these factors had been approved by the Board in previous orders. Additionally, Centra must set aside an amount equal to the annual taxes and the rate of return to be applied to the debt

incurred as a result of Hydro's acquisition of Centra. Centra stated that the exclusion of income taxes in the feasibility test would result in a reduction in the required customer contributions of \$155,000.

The current rate of 0.5% of net plant before Centra's contributions was used to calculate Corporate Capital Tax. Centra stated that its tax status with regard to provincial sales tax and goods and services tax has not changed as a result of the acquisition of Centra by Hydro.

9.3 Feasibility Test Results

The feasibility test assumptions are consistent with Centra's most recent franchise extension applications. The feasibility test uses a 30-year net present value ("NPV") calculation, and meets the Board requirement that the fifth year revenue to cost ratio be no less than 1.00.

The feasibility test results in this Application demonstrate contributions from third parties of \$6,210,735 are required, and restrict Centra's maximum allowable investment to \$1,090,009. The required third party contributions is determined with the intent that there will be no undue cross-subsidization by 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. Estimated conversion costs for residential premises range from \$875 for propane systems up to \$4,900 for electric baseboard systems.

Conversion costs vary widely and can be significantly higher for commercial and agricultural customers. 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 energy cost base as other recent expansion marketing and information campaigns.

Energy savings information given to potential customers by Centra does not quantify pay back periods. In respect of residential consumers, Centra stated that it is reluctant to provide calculations of pay-back periods, contending that there are many individual factors which would be difficult to quantify for all customers in a generic manner. These factors 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. 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.

10.0 Funding Arrangements

10.1 Federal Funding

The Federal Government, through the Canada Agri-Infrastructure Program (“CAIP”), signed an Implementation Agreement with ING on July 30, 1998 to provide funding of \$2,350,000 to ING for the implementation of natural gas distribution infrastructure in the Interlake. This agreement was amended on May 10, 1999 to address the concerns raised by the Board in the 1999 Stage I Interlake hearing. The Federal Government and ING signed a second amendment to the original funding agreement on February 4, 2000, to reflect the change in project scope and an extended deadline for the use of the funding.

10.2 Provincial Funding

Provincial Government funding came from the Rural Economic Development Initiative (“REDI”) and the Infrastructure Development Program. The Provincial Government and ING signed a funding agreement for the Provincial Government’s contribution of \$2,350,000 on May 5, 2000, a copy of which was filed at the public hearing.

10.3 Municipal Funding

In this Application, total maximum municipal funding of \$1,137,827 is required and will come from two main sources: a contribution from the Communities and the RMs and the new and incremental tax revenue of the project to be paid by Centra. The RMs agreed to maximum funding contributions of \$539,910, equivalent to municipal tax of 0.7 mills in the communities of Warren, Teulon, Arborg, and Riverton and 0.2 mills in the RMs of Woodlands and Bifrost. Based on the anticipated energy savings in publicly owned and operated buildings and other indirect benefits, the RMs decided that the funding by the RMs of Woodlands and Bifrost would take the form of a general levy, to reflect the benefits to all taxpayers.

The RMs will make a further contribution of \$597,917 to be funded by new and incremental tax revenue to be received from Centra as a result of the construction of natural gas transmission and distribution systems in their respective RMs. Included in this amount, both Interlake and Evergreen School Divisions have committed \$124,472 and \$122,355 respectively towards the municipal portion of the contribution requirement to be funded from incremental taxes.

Of the total maximum municipal funding of \$1,137,827, \$1,014,183 will be applied directly to the project, and \$123,644 will be allocated toward budgeted administration and management costs of ING.

Centra stated that on or about June 2002, the feasibility test would be recalculated using actual data to that point in time together with updated information on the balance of the forecast costs and revenues. In the event that the construction costs are less than originally projected, the surplus funds would be deposited into a trust account. However, if the construction costs are greater than originally projected, Centra will be obligated to absorb these costs. On or about June 2004, Centra would again recalculate the feasibility test. In the event that the construction costs are less than originally projected at that time, the difference would be paid by Centra to ING, first using the funds held in trust and then from Centra's own accounts. If construction costs are greater than originally projected, Centra would be obligated to absorb these costs.

10.4 Connection Fees

Centra will collect connection fees from customers who request that natural gas service be installed. The connection fees were established with consideration to the cost to provide service, estimated savings, ING's knowledge of local sensitivities, and the fee schedule for natural gas expansion under the Canada-Manitoba Infrastructure Works Program. Centra

stated the Connection Fee Schedule contained as Attachment A of this Order will be used consistently in all four Communities, regardless of the municipality within which the community is located. Each residential customer in the four Communities will be charged a connection fee of \$500 per service, while the commercial customers will be assessed a fee starting at \$750 based on their estimated peak load. These variable commercial connection fees are based on the potential load expressed in cubic feet per hour (“cfh”). For the purpose of the feasibility test, an average commercial connection fee of \$1,500 was used. Centra stated that three commercial customers with greater than 2,100 cfh load will be determined on a case-by-case basis in a matter consistent with that used to develop the fee schedule. Centra would be willing to file that analysis with the Board on a confidential basis. Given Board approval, for this expansion, the connection fees are non-refundable.

Centra and ING stated that it would not be reasonable or fair to require connection fees to be paid by the Interlake or the Evergreen School Divisions in light of their funding contributions. Similarly, given the funding contribution by all levels of government to the Interlake Expansion project, it was further determined by Centra and ING that connection fees for all public buildings will be capped at \$1,500.

10.5 Funding Summary

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

	<u>Communities</u>				<u>Rural Municipalities</u>				<u>Totals</u>
	<u>Warren</u>	<u>Teulon</u>	<u>Arborg</u>	<u>Riverton</u>	<u>Woodlands</u>	<u>Bifrost</u>	<u>Rockwood</u>	<u>St. Andrews</u>	
Contribution from increased mill rate	\$55,050	\$123,681	\$119,207	\$ 41,862	\$108,377	\$ 91,733	\$ -	\$ -	\$539,910
Contribution from pipeline taxes	47,940	92,623	99,720	82,939	35,530	154,703	66,597	17,865	597,917
Maximum contribution	\$102,990	\$216,304	\$218,927	\$124,801	\$143,907	\$246,436	\$66,597	\$17,865	\$1,137,827
ING Co-op Operating/Admin	-	-	-	-	-	-	-	-	<u>(123,644)</u>
Net municipal contribution	-	-	-	-	-	-	-	-	\$1,014,183
Federal contribution	-	-	-	-	-	-	-	-	2,350,000
Provincial contribution	-	-	-	-	-	-	-	-	2,350,000
Centra net investment	-	-	-	-	-	-	-	-	1,090,009
Customer connection fees	\$ 70,318	\$153,568	\$166,306	\$ 81,709	-	\$ 24,651	-	-	496,552
Total estimated project cost	-	-	-	-	-	-	-	-	<u>\$7,300,744</u>

11.0 The Roles and Responsibilities of ING

To address the issues raised in Order 115/99, ING and Centra redefined the project scope. ING stated that it performed a cost/benefit analysis regarding the introduction of natural gas service into the Communities and determined that the project was beneficial to the area. ING also secured the necessary funding to make the project feasible without negatively impacting Centra's existing customers.

ING organized a consultation and communication process with residents of the RMs, and engaged ChangeMakers to design and implement a process of public consultation which was conducted within the Communities. Meetings, facilitated by Mr. Jim Kingdon of ChangeMakers, were held in Teulon, Warren, Arborg and Riverton, and ING received input via telephone, fax and e-mail. In addition, meetings with individuals from Warren and other areas of the RM of Woodlands were held specifically to review Centra's marketing strategy and materials with certain exceptions. These communications indicated general support for natural gas expansion, and, subsequently, sales representatives began a marketing campaign in the Communities.

ING representatives met with Chamber of Commerce and Community Development Corporation members from Arborg and with local Keystone Agriculture Producers members. In addition, individual councilors, mayors, reeves and chief administrative officers from ING member RMs addressed concerns related to the project.

After hearing the views of the public at the meeting in Warren, the RM of Woodlands notified all rural ratepayers that their taxes would not be increased as a result of the RM's contribution to the project. Funds would be found within the existing budget. The RM also mailed a news release which publicized the RM's final costs for this project.

In the future, ING stated that it would continue to promote gas within the Communities. Centra will work directly with the RMs to explore opportunities for natural gas expansion to the rural areas.

In addition, ING assumed responsibility for the administration of funds made available to them under the various funding agreements associated with the project. ING will contract management of the agreements and payments to a qualified professional to be identified at a later date.

12.0 Project Risks and Benefits

ING submitted that the proposed project would result in significant benefits for the area, including the addition of valuable infrastructure that will encourage economic development and associated employment, and energy cost savings for residents and business owners. 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.

The contribution by the RMs of Woodlands and Bifrost, and the Towns of Teulon and Arborg and the Village of Riverton to this project is a maximum of approximately \$54,000 per annum. A detailed analysis was completed during the eight schools located in Warren, Teulon, Arborg and Riverton, which indicated that converting to natural gas would result in potential savings for all eight schools of approximately \$60,000 annually. Most schools currently use propane, which makes for a relatively inexpensive conversion to natural gas. A further analysis was completed for a sampling of several public buildings in the Communities, which showed the approximate potential savings for these buildings to be \$18,500 annually. ING contends there is an overall direct, or indirect, annual savings to taxpayers as a result of investing in natural gas infrastructure.

13.0 Intervenor's Positions

13.1 Bifrost Ratepayer's Association

Mr. Randall Stefanson, on behalf of BRA, was not opposed to natural gas expansion to the Interlake and argued against the Application because it did not contain a sufficient user pay concept. BRA argued that the Application has done little in providing alternative, common sense approaches to funding of the project. One of BRA's major concerns is that the proposed project will service only approximately 25% of the RM of Bifrost, and therefore approximately 75% of the RM of Bifrost will receive limited, if any, direct benefits, from the project, yet 100% of the residents will pay for the project. BRA argued that the Application is clearly flawed, and sought the following relief:

1. The Board should attach a condition to the Order that any ratepayer in the RM of Bifrost, by written protest of the individual, be granted relief from municipal tax intended for natural gas expansion.
2. The Board should reject Centra's request to approve a new franchise agreement between Centra and the RM of Bifrost on the grounds that:
 - (a) no feasibility test was done;
 - (b) no market survey was conducted;
 - (c) no proposal was made to provide service to the RM of Bifrost;
 - (d) A maximum of only 25% of the RM of Bifrost could be provided with service; and
 - (e) no community consultation has taken place.

3. In the event the Board grants a franchise for the RM of Bifrost, the Board should attach conditions to the Order that:
 - (a) the residents of the RM of Bifrost will not be liable for any costs that might be incurred in the future in replacing existing transmission lines and the expansion into the RM of Bifrost will be done without a general tax levy on the ratepayers of Bifrost;
 - (b) the tax generated from the proposed transmission system within the RM of Bifrost be placed in a special fund for development of natural gas distribution within the RM of Bifrost;
 - (c) the RM of Bifrost not be held liable for costs of any extension into the RM of Fisher,
 - (d) the residents of the RM of Bifrost not be held liable for any project cost over-runs;
and
 - (e) the 10% surtax that was approved by the Board in the previous application be applied to this project, and the difference be applied to repay the contributions by the RM of Bifrost and the RM of Woodlands.
4. The Board attach any other conditions that would protect the ratepayers of the RM of Bifrost.

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

CAC/MSOS argued that there are eight issues that the Board should consider in dealing with the Application.

1. The franchise agreements are for the entire geographic area of the RMs of Bifrost and Woodlands, but the proposed distribution system will only service the four Communities. CAC/MSOS argued that the Board was being asked to approve a franchise without

having sufficient information before it to determine if the franchise is necessary or properly serves the interests of the public. CAC/MSOS argued that the Board should not approve the Franchise Agreements as put forward in the Application. Rather, the Franchise Agreements should be limited to those areas that will receive gas as a consequence of the system which is being proposed.

2. The reasonableness of the attachment projections for residential customers and the potential risk to existing Centra customers if actual attachments are less than the assumptions used in the feasibility test was an issue raised by this intervenor. Residential volumes account for approximately 48% of the total projected revenues, so a deficiency in the residential attachments could have a serious effect on the project viability. CAC/MSOS expressed concern over Centra's market survey techniques, and suggested that in the future all surveys should be conducted in the same fashion Centra used for commercial market surveys, and the forecast period should be limited to five years. CAC/MSOS submitted that Centra marginally met the onus to demonstrate the financial feasibility of the project. However, CAC/MSOS expressed concern that at best, the project was a break-even venture that did not make economic sense because of the "razor-thin" margins. CAC/MSOS urged the Board to consider whether the risks borne by the existing Centra customers as a result of projected residential attachments not being achieved are reasonable in the circumstances.
3. CAC/MSOS suggested that the costs of rerouting the Warren transmission line and those associated with the new route for the Arborg and Riverton transmission line should be included in the capital cost of the project rather than funded out of the contingency reserve. CAC/MSOS submitted that the increased costs of approximately \$162,000 are known before the project begins, and should be added to the capital cost of the project, and the required contributions necessary to make the project feasible should be increased accordingly.

4. CAC/MSOS also contended that \$218,000 of capital costs associated with upsizing the Teulon and Warren transmission lines are not prudent because there are not sufficient potential customers to justify the additional capacity. The costs should therefore be removed from the project, and perhaps used to offset the costs associated with rerouting the transmission lines.
5. CAC/MSOS also urged the Board to direct Centra not to proceed with any upsizing of the Gimli transmission line at an estimated cost of \$300,000, to be paid by the RM of Gimli, until a feasibility test and market survey has been finalized.
6. CAC/MSOS expressed a concern that the funding scheme does not adequately balance the municipal tax burden among those that will enjoy the direct benefits of natural gas, and those that will only experience the indirect benefits of bringing natural gas to the area. CAC/MSOS recommended that the Board direct Centra and its funding partner, ING, to reconsider the municipal funding design so that it better balances the cost burden between residents that will receive natural gas service and those that will not.
7. CAC/MSOS discussed the proposed exemption of the school divisions from the \$1,500 connection fee and submitted that the connection fees ought to be consistently applied to all customers, as stated in Order 115/99.
8. CAC/MSOS requested that the Board urge Hydro to file its new system expansion policy as soon as it is completed, so that it will be in place before the next system expansion application is considered.

13.3 Communication, Energy and Paperworkers Union of Canada, Local 681

By way of letter, CEPU fully supported the Application, and expressed confidence in the anticipated benefits of the project as identified by ING. CEPU also endorsed ING's partnership with Centra, and encouraged the Board to approve the Application as filed.

13.4 B. Fleury and M. Christian

Mr. Fleury, on his own behalf and on behalf of Mr. Christian suggested that public support for the project was limited, and expressed his concern to the Board that a fair and accurate assessment of public support is essential for the success or failure of the project. Mr. Fleury expressed serious concerns about the request to grant a franchise for the entire geographic area of the RMs of Woodlands and Bifrost, when gas service is only expected to be provided to a small segment of the municipality. Mr. Fleury submitted that if the Franchise Agreements are granted, subsequent rural expansion could proceed with no feasibility studies or public input. This is particularly troublesome to Mr. Fleury since he doubts the feasibility of the project.

Mr. Fleury was of the view that each geographic area of the Interlake project has its own benefits and problems, and accordingly, the feasibility of each of the three distribution lines should be considered on an individual basis to ensure there is no cross subsidization between each of the areas in the project. Mr. Fleury also contended that the Warren project will be overbuilt, and is therefore overpriced. Mr. Fleury believes that Hydro will benefit from additional electricity capacity that will be displaced as a result of the project, and Hydro should therefore contribute to this expansion.

To support his claims, Mr. Fleury submitted a petition. The petition indicated that 92% of respondents within the RM of Woodlands excluding Warren, and 74% of respondents in Warren were opposed to the Application.

13.5 Interlake Natural Gas Co-op Inc.

ING expressed concern that Mr. Stephanson was a purported member or spokesperson for a public organization, which from all appearances, does not exist. Mr. Goodman also objected to the suggestion of Mr. Stephanson that the federal funding could be better used elsewhere, and further suggested that the petitions filed by Mr. Fleury and Mr. Christian would be of more assistance to the Council of the RM of Woodlands than to the Board. ING observed that compared to the previous hearing, there were few opponents to the project that chose to participate in the public hearing process. ING also requested the Board to resist the temptation to impact, either directly or indirectly, the decisions already made by democratically elected Councils.

ING summarized three directives or concerns expressed by the Board in its previous Order. The concerns were:

1. ING did not have “its ducks in a row”;
2. the project scope, costs and funding should be reconsidered; and
3. there had to be better communication and consultation with the general public.

ING submitted that all three concerns had been more than adequately addressed by ING in the current Application.

It was further submitted that ING had worked co-operatively with the Communities, had secured the necessary funding, and had worked with Centra to develop one regional project

and recommended that the Board approve Centra's Application in its entirety, in a timely manner to ensure construction in 2000.

13.6 The Seagram Company

The Seagram Company took no position with respect to the Application.

14.0 Presenters' Positions

The Board received a number of oral and written presentations 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 majority of the presenters were in favour of the Application and cited the need to create economic development and to provide energy options for current and future businesses. These presenters stated that without natural gas service, the Interlake is at a disadvantage relative to other areas with respect to attracting new industry to the Communities. By reducing energy costs, businesses in the area would be able to create jobs, thereby being able to retain its young people and expand its tax base.

Some individuals expressed opposition that residents and businesses who did not want natural gas service or were outside of the proposed service area would be required to contribute to the costs through property taxes.

Specific comments made by the presenters are briefly summarized below.

Larry Baker

Mr. Baker, a landowner in the RM of Woodlands, supported the Application even though he will not be able to obtain gas service. He believes that his small investment will increase the benefits to the community, including reduced heating costs for schools and businesses. He submitted that he must pay for drainage, garbage collection, street lights in rural areas for which he receives no direct benefit, and, therefore, does not support a user-pay system. He stated that the RM of Woodlands needs every tool to compete and added that the tax rate will not decrease until there is industrial development in the area.

Bernice Baldwin

Ms. Baldwin is opposed to the Application. She stated that the project is inspired by greed and ignorance. She contended that approval of this Application and the corporatization of rural communities would harm residents in the area and the environment.

Colin Bjarnason

Mr. Bjarnason, on behalf of himself and the Village of Riverton, supported the Application. In his view, the community can afford the project. He stated that no resident had come forth opposing natural gas in Riverton, because residents realize the benefits of natural gas.

Kerry Church

Mr. Church, on behalf of himself and Arborg Feeds, supported the Application. He believes that natural gas is a basic requirement to maintain the feed operation and increase its competitiveness on a global level.

Tom Chwaliboga

Mr. Chwaliboga, on behalf of himself and the Arborg-Bifrost Recreation Commission, supported the Application. He believes the energy cost savings will encourage the construction of new facilities and facilitate maintenance of existing facilities at the Recreation Centre.

Wayne Doherty

Mr. Doherty, on behalf of himself and the Western Interlake Chamber of Commerce, supported the Application. In his view, natural gas will promote economic growth, which

will increase the number of jobs available, and the tax base of the community. He stated that residents must look at the benefits to the community and not just the benefits they themselves receive. He questioned the accuracy of the petition that was circulated around Warren.

Peter Dueck

Mr. Dueck supported the Application as a private citizen and a local business owner. He believed that access to natural gas in the rural areas would result in significant savings and allow his business to remain globally competitive. However, even if natural gas is not extended, there will still be a benefit through the provision of natural gas to the Town of Arborg.

Dave Eidick

Mr. Eidick, on behalf of the Gladstone, Austin Natural Gas Co-op Ltd., supported the Application.

Keith Eliasson

Mr. Eliasson, on behalf of The Riverton Bifrost Community Development Corporation, supported the Application. He believed the Village of Riverton will benefit from lower energy costs and will become more competitive for some of the individual development that has bypassed the community previously.

Jeff Epp

Mr. Epp supported the Application. In his view, the restaurant industry will be able to offer a higher quality product and he would be able to save 1/4 to 1/3 of energy costs if he were to

convert. Bringing natural gas to the community supports economic development in the area which was a goal identified by the Arborg-Bifrost Community Round Table.

Leslie Eyolfson

Mr. Eyolfson, on behalf of himself and the Keystone Agricultural Producers, supported the Application. He believed that providing access to natural gas will enhance the development of secondary processing for agricultural products. It will retain jobs, maintain businesses and better and more services will be available in the community. Significant reduction in energy costs will create larger profit margins for livestock and feed mills and manufacturing facilities, and Interlake farm families will benefit from a cheaper energy source.

Susan Eyolfson

Ms. Eyolfson supported the Application. She stated that the cost savings and future growth opportunities are obvious. She urged the Board to support the needs of the community.

Elizabeth Fleming

Ms. Fleming, on behalf of the Provincial Council of Women of Manitoba Inc., asked that the Board ensure that the public is shown clear evidence of the economic viability of the project in each and all of the proposed new franchise areas. This evidence should ensure that all gas costs and revenues are being kept separate from those of Hydro, that there is no cross-subsidization of the operations of one utility with the other utility, and that the level of financial contribution from each level of Government and other sources is valid.

Lorna Floyd

Ms. Floyd, on behalf of herself and the Arborg and District Chamber of Commerce, supported the Application. She believed that hospitals, schools and recreational centres will experience reduced costs and the retail sector will benefit. The project will encourage more manufacturing, and new, higher paying jobs. The cheaper source of energy will encourage expansion in the grain and forestry industries and stimulate value added processing.

Steve Gislason

Mr. Gislason supported the Application. Natural gas will promote industrial growth and encourage young people to stay in the area. As a senior citizen, he is not looking for personal benefit, but rather for the benefit that it will bring to the community in the future.

Andrew Kaus

Mr. Kaus, on behalf of himself and the Arborg-Bifrost Community Development Corporation, supported the Application. He believed the project will help to keep youth in the area, create economic diversity within local industry, and provide competitive infrastructure. The project is key in establishing a level playing field with other communities in the area such as Stonewall and the Town of Gimli. In addition, the project will allow residents and businesses to lower their energy costs.

Bert Kindzierski

Mr. Kindzierski, on behalf of himself and the Town of Arborg, supported the Application. In his view, the project is important in order for the Communities involved to remain competitive and reduce the challenges faced by the residents. As the municipal funding represents approximately 15% of the total funding, the project is affordable, beneficial to the community, and an opportunity that must be taken. He stated that Arborg has a natural gas reserve of \$69,000 and a general reserve of \$72,000. In addition, he stated existing debt will be retired next year, but the one mill rate increase that has been in place for three years will continue. Therefore, Arborg can well afford its \$219,000 contribution, of which \$100,000 will be new taxes to be paid by Centra. He added that the procedures recommended by the Municipal Board had been followed including public meetings and there were no objections voiced at those meetings.

Terry Lindell

Mr. Lindell supported the Application. In his view, natural gas will strengthen the existing employment base, and population and is an important component of economic development. He added that the project is consistent with the community vision for the RM of Woodlands. Natural gas is only one of the factors that will make this community attractive, but it is a significant factor.

Steve Lupky

Mr. Lupky, on his own behalf and on behalf of the Arborg-Bifrost Community Development Corporation, supported the Application. He stated that natural gas will not be the sole reason that the area evolves, but it is certainly a fundamental component of a solid economic base. He believes the community must establish the appropriate infrastructure in order to put it on a level playing field with neighboring communities.

Bill MacGillivray

Mr. MacGillivray, a farmer in the RM of Woodlands, supported the efforts of the RM of Woodlands and ING. In order to remain competitive, he believes one needs access to resources, knowledge and people. As a piece of the puzzle, natural gas will lower the cost of operation in homes, businesses, schools, municipal buildings, community facilities, and encourage future development. He stated that the increase in taxes in the rural areas would be small, but the farming community would benefit indirectly from the municipal and school cost savings, and would benefit directly when gas becomes available to farms.

Marvin Magneson

Mr. Magneson, on behalf of himself and the RM of Bifrost, supported the Application. In Mr. Magneson's view, the project would provide an environmentally friendly opportunity to encourage more services for the area, create new jobs, retains youth in the area, and result in energy cost savings for its residents. He stated that Bifrost has a natural gas fund of \$144,000 and will borrow the balance of the funds from the RM's general reserve. He stated that the gas reserve will be replenished in seven years. However, Centra will continue to pay taxes related to the project into the future.

Dave McLelland

Reeve McLelland, on behalf of himself, the RM of Eriksdale, and the Interlake Development Corporation, supported this Application. He viewed the project as a step forward for these communities.

Edward Peltz

Mr. Peltz, on behalf of himself and the RM of Woodlands, supported the Application. He stated that taxes would not increase for the RM of Woodlands, and the funds would be found within the existing budget. Mr. Peltz stated that there are many services that people pay for, but do not benefit from directly. Mr. Peltz was not convinced that the petitions being circulated through the RM of Woodlands indicate those residents of the community are opposed to the Application. He cited the growth that has occurred in Manitoba areas where natural gas has recently been installed, and the lost opportunities for the RM of Woodlands. He stated that in order for economic development to occur, the necessary infrastructure must be in place. Mr. Peltz stated that the RM of Woodlands can afford the project and the borrowing authority has been obtained, and there is a need to provide a climate to increase population and expand the tax base in order to help the municipality grow.

Gordon Rajotte

Mr. Rajotte as a provincial and federal taxpayer opposed the Application. He stated that the project is not financially viable given the large amount of external financing. He stated that it would have been helpful if Centra had provided a history of Centra and Hydro's relationship in the Application. In addition, he would have liked to have an indication of how the public meetings and telephone conversations were conducted. He believes that the external funding could be used to help the area farmers in other ways. He questioned why

Hydro would promote a service that would cannibalize itself and added that economic development is not conducive to a healthy environment.

Don Salkeld

Mr. Salkeld, on his own behalf and on behalf of Northern Goose Processors, supported the Application. He stated that his daughter and his son worried about their future in the Interlake and would like the project to move forward. The agricultural industry must be competitive on a global basis. The community has to search for opportunities to be productive and competitive without lowering its standard of living. He added that the project is much more palatable than a year ago. The residents must invite industry into the towns to make the land productive in the Communities by allowing individuals and public facilities to save on heating bills. Natural gas is an important component of the infrastructure that will add value to the products and services of the community and all the profitable export of those products and services to other countries.

Lillian Skulason

Ms. Skulason, a real estate agent, supported the Application. Natural gas is one consideration that potential residents consider when building and locating in Arborg, especially when nearby communities such as the Town of Gimli have natural gas. In order for existing businesses to remain in the community and to attract new entrepreneurs, the availability of natural gas is absolutely necessary.

Cal Surgenor

Mr. Surgenor supported the project. In his view, taxes must increase in order to maintain and increase the number of services offered in the area, and the natural gas project will alleviate

increasing operating costs of public buildings. Natural gas may not be the only component that people and business need to consider when relocating to a region, but is part of a greater package of services.

Lincoln Webb

Mr. Webb, on behalf of the directors of The North East Interlake Community Futures Development Corporation (“NEICOM”), supported the Application. He stated that the provision of natural gas will be an important step in creating the foundation necessary to develop opportunities for new local industry, expansion of existing enterprises and attraction of non-domestic firms to the region. This will increase the overall standard of living and stability of the rural economy.

The Executive of the Warren Curling Club

The Executive of the Warren Curling Club supported the Application. The Club will benefit from the project through conversion to natural gas. The efficiencies to be realized by the Club through the introduction of natural gas are very positive and a way to help remain viable for future generations.

15.0 Board Findings

15.1 General

The current Application is significantly different from the Application addressed in Order 115/99. There have been substantial changes to the geographic regions served, the design assumptions, the costs, and the funding arrangements. As a result, the Board will view this Application on a stand-alone basis and not as an extension of the prior Application.

15.2 Franchise Agreements

The Application by Centra includes a request to approve Franchise Agreements between Centra and the RMs of Bifrost and Woodlands as well as with the Towns of Teulon and Arborg and the Village of Riverton.

Some intervenors have raised questions as to whether the Board should approve Franchise Agreements for the entire RM of Bifrost and entire RM of Woodlands when only a portion of those RMs will be eligible for natural gas service.

The Board is aware that Centra has franchise agreements with other RMs where the service area varies with regard to the geographic territory of the franchise. There are instances where the franchise agreement includes the entire municipality and there are other instances where the franchise is restricted to a zone on either side of the transmission or distribution corridor. Restricted franchise agreements permit Centra to attach customers along the transmission or distribution route but do not permit attachments in other geographic areas within the territory of the RM.

Some intervenors were concerned that if the entire geographic territory is included in the franchise agreement, there will be no public forum provided at a later date in which to raise any concerns should natural gas distribution be extended to other parts of the RM.

These intervenors may not have been aware that the Board has previously addressed this issue. Expansions by the utility within existing franchise areas require the preparation of a feasibility test. A feasibility test is prepared by the utility for every proposed expansion in excess of 500 meters, and must be filed on a post-facto basis as part of general rate application issues.

In the Rural Municipalities of Woodlands and Bifrost, there have been no identified rural expansion plans. However, should such plans arise, the utility must provide a feasibility test to support the decision to extend natural gas service. For purposes of this Application, the Board is satisfied that franchise agreements encompassing the entire geographic area of the RM of Bifrost and the entire geographic area of the RM of Woodlands are appropriate as there has been discussions with the RMs about future rural expansion. In addition, it is the elected councils of each of the RMs that have provided first reading of by-laws that grant the franchise for the entire geographic territory.

However, as an exception to the above-described existing requirement, should Centra plan further expansion into the Rural Municipalities of Bifrost and Woodlands, the Board will require Centra, in advance of construction, to file its feasibility tests with the Board. As mentioned earlier, these feasibility tests are prepared by Centra in any event, and if filed prior to construction, rather than at some future general rate application, the Board can ensure that the expansion criteria are being satisfied prior to the commencement of construction.

In Order 115/99 the Board recommended that there be consistency between the number of potential customers for design purposes as well as for feasibility test purposes. It follows that should the utility seek a franchise for the entire geographic territory of the municipality, it would then be required that the marketing survey and design also include all areas in the RMs. This would give interested parties a better indication of future rural expansion plans.

Rather than tie the issue of granting franchise agreements for an entire geographic territory to a particular expansion project, a discussion in principle and any resulting recommendations should prove beneficial to the utility as well as other interested parties. Therefore, the Board will request Centra and all parties to consider the issue of rural expansion further together with the correlation of the feasibility test and the franchise granting process and to provide the Board with their views at the next general rate application.

15.3 System Design, Routing and Costs

The Board is of the view that the proposed design is consistent with projected customer numbers, attachment rates and volume estimates and the transmission and distribution components of the system as reflected in the feasibility test. However, the Board is of the opinion that the planned design of the transmission mains to Warren and Teulon which result in excess capacity and associated incremental costs of \$83,000 and \$95,000 respectively do not correspond to projected volumes contained within the feasibility test. Therefore, the Board will order that the design proposed by Centra consisting of both 60.3 mm and 80.9 mm steel transmission mains be adopted for both routes.

In addition, if Centra cannot establish customer commitments from the Village of Woodlands, the Board will expect Centra to review its design in a manner such that it will deliver the required load, based on the attachment parameters submitted in this Application, but to reflect customer commitments for the Village of Woodlands.

There is no feasibility test and no data to support an upsizing of the transmission line from 101.6 mm to 168.3 mm running from the Town of Gimli to the RM of Gimli/Bifrost border. There is no Application before the Board seeking approval of the contribution level of \$300,000. Furthermore, the Board has no evidence of the costs included in this figure. It is the Board's view that if such information is obtained, any contribution by the RM of Gimli must include a reasonable allocation of the upstream costs, if any, as well as downstream costs.

The Board recognizes that ultimately actual costs of the Interlake expansion will dictate the relative contribution levels of all parties, and Centra will be liable for any costs that exceed the estimates contained in the Application. The Board considers that, to the extent anticipated capital expenditures are reasonably known they should be included in cost estimates, rather than being included as part of the contingency allowance. However, the Board recognizes that when Centra filed the Application in February 2000, the final routing of the pipelines for Warren and Riverton had not been finalized. The Board is of the view that the contingency fund contained in the cost estimates recognized the potential for additional costs related to finalization of the pipeline route. Now that Centra has finalized the routing, the Board would expect that Centra's estimated costs would reflect the revised routing but would also expect the contingency allowance to be decreased to reflect fewer uncertainties surrounding the estimated costs. Therefore, the Board is satisfied that the remaining contingency allowance is reasonable and should accommodate any further unforeseen costs.

The Board will expect Centra to review the location of the Warren Town Border Station ("TBS") and seek to minimize the paralleling of the transmission main with the distribution main. The Board will direct Centra to file the results of this review for Board approval before construction commences. Any cost savings through a relocation of the planned TBS should be reflected in the revised feasibility test.

15.4 Funding Arrangements

The Board is satisfied that the federal, provincial, and municipal agreements as well as the related municipal by-laws are in order. Any issues relating to the funding allocated to the RM of Fisher must be dealt with at the Federal and Municipal Government level and are outside the jurisdiction of this Board.

The Board notes that the majority of opposition to the project was related to the methodology adopted by the RMs to provide their portion of the funding to the project. The Board is of the view that there is much greater correlation between those who must bear the costs and those who will enjoy both the direct and indirect benefits in this Application as compared to the funding arrangements proposed in the previous Application. The RM of Woodlands' taxes will not increase as a result of this project, and much of the RM of Bifrost's contribution will be from funds that have already been collected.

The Board wishes to reiterate the statements made in Order 115/99, that the RMs are able to establish taxes based on operating budgets that provide for payments under debentures. The Board has no evidence that the elected officials have not acted in what they consider to be the best interests of the Communities.

15.5 Feasibility Test

The Board will direct Centra to revise the feasibility test, to exclude the costs related to the upsizing of additional capacity for Teulon and Warren and any change in location of the Warren TBS.

The Board acknowledges the efforts of ING with regard to the public consultation process. In addition, the Board would like to thank those who participated in the preparation of the Woodlands petition. While specific conclusions cannot be drawn from these documents, the

Board does believe that questions have been raised regarding customer attachment assumptions in Warren and the support for the Application in the rural areas of the RM of Woodlands.

Natural gas prices have risen dramatically since the time customers originally signed up for natural gas service. It may no longer be as beneficial for the customer to convert their heating equipment to utilize natural gas service. Therefore, in order for customers to make an educated decision regarding the use of natural gas, the Board will expect, to the extent it has not already done so, Centra to contact those customers who have already signed-up to advise them of the recent increases in gas prices, the economic effect these increases will have on the customer's conversion decisions, and to reaffirm the customer's intention to convert to natural gas service.

The Board is of the view that the customer attachment levels achieved in the southwest and southeast Manitoba expansions are a good indication of what can be achieved for this expansion project. The viability of those projects was essentially determined by the first two years of customer conversions. Currently, the increase in natural gas commodity prices has exposed existing Centra ratepayers to additional risk in the Interlake expansion project. In order to reduce this risk the Board will direct Centra to achieve customer commitments equivalent to the year two projected annual volumes contained in the revised feasibility test for this Application, before commencing construction.

The Board is satisfied that the use of the SGC WAGOG in the feasibility test will not materially alter the test results. In addition, the Board will accept the level at which Centra has incorporated the various expense components including the rate of income tax and the rate of return on equity, recognizing that these matters will be discussed on a generic basis at a future hearing.

When conducting market surveys in the future, the Board would encourage Centra to conduct a detailed analysis of existing dwellings to determine the existing energy source and equipment type, particularly for residential premises. In the Board's view, this would enable a much more accurate assessment of probable attachment rates and annual consumption.

The Board notes that Hydro is examining the impact of natural gas expansions on Hydro and whether any changes should be proposed for the feasibility test to reflect such impacts. The Board is of the view that should changes be proposed to the feasibility test to incorporate impacts on Hydro and its ratepayers, such changes would best be examined within a generic hearing context to ensure that the evaluation criteria do not include any specific community factors.

15.6 The Role and Responsibilities of ING

The Board is satisfied that the roles and responsibilities assigned to both Centra and ING in this Application better utilize the strengths of each organization.

15.7 Connection Fees

The Board notes that the connection fees are to be collected by Centra, in accordance with the Board's previous directive in Order 115/99. The Board is satisfied that the proposed \$500 fee for all residential customers is reasonable. As well, a variable connection fee based on capacity for commercial customers, commencing at \$750, and having an upper limit of \$6,500 for annual consumptions between 1,200 and 2,099 cfh is also reasonable, based on the relative costs required to attach to the system. The Board will approve the connection fees for all residential customers and these classes of commercial customers.

The Board will require Centra to file any connection fee determined on a "case by case" basis for customers with annual consumptions in excess of 2,100 cfh. The Board will expect that

the fee flowing from such analyses will be based on Centra's costs of providing the service, from the distribution main to the meter set. The Board retains the ability to issue an order denying the proposed connection fee, should the Board be of the view that the analysis is flawed and does not properly reflect the costs of attaching that customer. The Board will expect that connection fee schedules submitted for future expansions will be based solely on the costs incurred to connect those customers.

The Board considers that the proposed waiver of connection fees for schools and the \$1,500 cap for public buildings is not in accordance with the Board's directives in Order 115/99 that "the Board is of the view that the connection fee should be applied consistently to all customers in accordance with the approved fee schedule, with no exceptions." In Order 115/99, the Board also indicated that the fees should be assessed to all customers in a consistent manner. However, the Board also recognizes that the contributions to this project by the two school divisions and by all three levels of government will considerably exceed the revenues which would have resulted from collection of connection fees. Consequently, the Board will approve Centra's proposals to waive and cap connection fees in this case only. The Board will expect that connection fees will be applied consistently to all customers in future applications.

16.0 IT IS THEREFORE ORDERED THAT:

1. The Franchise Agreements between Centra Gas Manitoba Inc. and the Rural Municipalities of Bifrost and Woodlands, the Towns of Arborg and Teulon, and the Village of Riverton BE AND ARE HEREBY APPROVED.
2. The Connection Fee Schedule included as Attachment A to be used by Centra Gas Manitoba Inc. to charge and collect connection fees from customers in the above-noted Communities BE AND IS HEREBY APPROVED.
3. Centra shall inform all residents that have signed up to convert to natural gas service about the recent increases in the commodity price of natural gas, the impact of those increases on the economics of converting to natural gas service, and then reaffirm the customer's intention to convert to natural gas service, and file the results of that process with the Board as soon as possible and prior to the commencement of construction.
4. Centra shall perform a customer analysis to determine the number of customers prepared to convert to natural gas in the Village of Woodlands and file the results with the Board as soon as possible and prior to the commencement of construction.
5. Centra shall:
 - (a) revise and file with the Board for approval its transmission and distribution system design, to:
 - (i) include the results of the customer analysis for volumes and loads within the Village of Woodlands;
 - (ii) exclude the upsizing of additional capacity for Teulon and Warren; and
 - (iii) include the results of study regarding the proposed location of the Warren Town Border Station.
 - (b) revise and file with the Board the revised capital costs.

6. Centra shall revise and file with the Board the feasibility test to reflect the revised capital costs.
7. Due to the increase in the commodity cost of natural gas and the added risks this increase creates for natural gas ratepayers, Centra shall achieve customer commitments equivalent to year two projected annual volumes included in the revised feasibility test and advise the Board of this achievement, prior to the commencement of construction.
8. For any future expansion in excess of 500 meters within the RMs of Woodlands and Bifrost, Centra shall submit a feasibility test to the Board for approval prior to the commencement of construction.

THE PUBLIC UTILITIES BOARD

Chairman

Acting Secretary

THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

Chairman

“Hollis Singh”

Acting Secretary

Certified a true copy of
Order No. 95/00 issued by
The Public Utilities Board

Acting Secretary

**Interlake Natural Gas Expansion
Connection Fee Schedule**

Residential

0 - 199 cfh \$ 500 + GST

Commercial

0 - 199 cfh \$ 750 + GST

200 - 399 cfh \$1,500 + GST

400 - 799 cfh \$2,500 + GST

800 - 1,199 cfh \$4,000 + GST

1,200 - 2,099 cfh \$6,500 + GST

> 2,100 cfh case by case review required

Please note:

- Connection fee schedule is based on the maximum flow rate of a service, measured in cubic feet per hour (cfh);
- First payment of 50% due when service application is completed; second payment of 50% due by post-dated cheque for June 15, 2000;
- Cheque(s) payable to Centra Gas Manitoba;
- GST of 7% payable on all connection fees;
- Connection fees for public buildings will not exceed \$1,500; and
- School division buildings will not be subject to connection fees.