

MANITOBA
THE PUBLIC UTILITIES BOARD ACT

Order No. 121/03

July 29, 2003

Before: G. D. Forrest, Chairman
L. Evans, Member
M. Girouard, Member
Mario J. Santos, Member

**AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR
AN INTERIM EX PARTE ORDER OF THE BOARD:**

- 1. AUTHORIZING AND APPROVING A FRANCHISE AGREEMENT BETWEEN CENTRA AND THE RURAL MUNICIPALITY OF HAMIOTA**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO SERVICE ONE COMMERCIAL CUSTOMER WITHIN THE EXPANDED FRANCHISE AREA.**

1.0 The Application

On July 3, 2003 Centra Gas Manitoba Inc. (“Centra”) applied to The Manitoba Public Utilities Board (“the Board”) for interim ex parte approval and authorization of a franchise agreement between Centra and the Rural Municipality of Hamiota (“RM”), and interim ex parte approval of the financial feasibility test for expansion of Centra’s distribution system to serve one commercial customer within the expanded franchise area.

2.0 Franchise Agreement

Centra currently has a franchise agreement with the Town of Hamiota, which is located in the RM. Centra was requested to extend natural gas service to a commercial establishment located in NW ¼, Section 32, Township 13, Range 23 WPM. In order to service this customer a franchise is also required for NW ¼, Section 5, Township 14, Range 23 WPM. While canvassing the area to determine if there were other potential customers, Centra discovered that one farm customer, located outside of Centra’s existing franchise area had been receiving natural gas service since 1977.

The RM gave first reading of a by-law permitting Centra to obtain the franchise area to serve the commercial customer on November 22, 2002. In a letter to Centra dated June 26, 2003, the RM undertook to further amend the franchise agreement and by-law to include the farm customer located in SW ¼, Section 5, Township 14, Range 23 WPM. The RM indicated that it would process the franchise agreement and by-law, as further amended after Board approval of this application is received.

3.0 Customer Attachments, Volumes and Forecast Revenues

Centra was requested to provide service by the commercial customer in the fall of 2002, with an anticipated in-service date of August 2003. This customer's estimated annual consumption is 17,336 cubic metres, based on the square footage method for estimating space-heating load. Annual volumes for the first year for this customer have been included at 100% for the first and subsequent years. The revenue was estimated using the Large General Service ("LGS") sales rate approved by the Board in Order 73/03.

4.0 System Design and Capital Costs

Centra proposed to provide service to the commercial customer by extending Centra's existing 60.3-mm transmission line supplying the Town of Hamiota. This line runs north south through the customer's property on Centra's easement. A pressure reducing farm tap will be installed to the existing transmission pipeline to supply a 60.3 mm (NPS 2") polyethylene main extension that will be installed along the north side of the road allowance in SW ¼, Section 5, Township 14, Range 23 WPM. As this main extension is less than 10 km, it does not require environmental approval pursuant to *The Manitoba Environmental Act (Manitoba), Regulation 164/88*. There are no additional capital costs required to provide service to the existing farm customer.

Centra's cost estimates are expressed in current (2003) dollars and include the following assumptions:

- 5% labour and materials contingency;
- 1% interest during construction to contract labour and materials; and
- 24% overheads, consisting of 10.5% construction supervision, 3.5% engineering, 4% project administration, 5% marketing, and 1% overhead contingency.

Estimated capital costs for the project are \$23,882. Capital costs are summarized in the feasibility test, attached as Appendix “A” to this Order. These costs include the installation of a farm tap, distribution line, and service and meter set to the commercial customer.

5.0 Feasibility Test Methodology and Results

Centra used the LGS weighted average cost of gas and LGS sales rate that was approved by the Board in Order 73/03 to calculate project costs and revenues. Additionally, the following assumptions were used in the feasibility test:

- Annual operating and maintenance costs of \$100 per customer.
- Depreciation expense, specific to the plant installed, of 3.08%, based on the Centra’s 1998 weighted average cost for the distribution plant.
- Municipal property tax calculated using current 2002 mill rates, and estimated 2002 assessment rates.
- Corporate capital tax calculated at a rate of 0.5% of net plant, prior to any customer contributions.
- Income tax assuming a combined Federal and Provincial corporate rate of 46.12%.
- Overall rate of return of 8.893% on a capital structure as last approved by the Board in Order 79/98, dated June 19, 1998

Centra submitted that the Board approved 30-year net present value (“NPV”) test resulted in a required customer contribution of \$18,773. With this contribution, the project generates the required revenue to cost (“R/C”) ratio of 1.0 by the fifth year and does not fall below 1.0 for the duration of the project. Centra’s capital contribution to this project is estimated to be \$5,109.

Centra has received a \$10,000 contribution from the commercial customer to date, and stated that the balance will be received upon Board approval of this application.

6.0 Board Findings

The Board is satisfied that this application has been filed in a manner consistent with the Board's requirement to have system extension applications supported by the approved feasibility test. The results flowing from the feasibility test indicate that the R/C ratio in year five of the project is 1.0, if a customer contribution of \$18,773 is received, which would satisfy the required NPV test criteria. The Board will require Centra to obtain the balance of the required customer contribution prior to commencing construction on the project.

The Board will require Centra to inform the Board if any other customers are served from this distribution main, and if so, the Board will expect that such customers will pay a pro-rata portion of the customer contribution. In this event, the Board will require an appropriate refund to be made to the commercial customer included in the feasibility test. The Board will also require Centra to provide a "true-up" report by December 31, 2009, in respect of this expansion.

The Board has reviewed the system designs and capital costs. The Board is satisfied that the system design is adequate and the costs are reasonable, as are other feasibility test costs and revenues. Therefore, on a prima facie basis, the Board is satisfied that the required expansion criteria have been properly met. Due to the need to commence construction as soon as possible to enable gas to flow by this fall, the Board will approve the application on an interim ex-parte basis.

7.0 It Is Therefore Ordered That:

1. The amendment to the existing Franchise Agreement between the Rural Municipality of Hamiota and Centra Gas Manitoba Inc., as requested, BE AND IS HEREBY APPROVED, on an interim ex parte basis.
2. The feasibility test as submitted by Centra Gas Manitoba Inc., and attached as Appendix “A” to this Order, BE AND IS HEREBY APPROVED, on an interim ex parte basis.
3. Centra obtain the balance of the required customer contribution prior to commencing any construction related to this project.
4. Centra submit a report to the Board detailing the treatment of customer contributions related to any future customers that are attached to the expanded distribution system.
5. Centra submit a “true-up” report to the Board respecting this application by no later than December 31, 2009.
6. That this interim Order remain in full effect until confirmed or otherwise by a subsequent Order of the Board.

The Public Utilities Board

Chairman

Acting Secretary

THE PUBLIC UTILITIES BOARD

“G. D. Forrest”

Chairman

“H. M. SINGH”

Acting Secretary

Certified a true copy of
Board Order 121/03 issued by
The Public Utilities Board

Acting Secretary

**Financial Feasibility Test
for Natural Gas Expansion**

1 RM of Hamiota - Expansion Project

	2003 (Time 0)	2004 (YEAR 1)	2005 (YEAR 2)	2006 (YEAR 3)	2007 (YEAR 4)	2008 (YEAR 5)	2009 (YEAR 6)	2010 (YEAR 7)	2011 (YEAR 8)	2012 (YEAR 9)	2013 (YEAR 10)
3 OPERATING ASSUMPTIONS											
4 Number of Customers		1	1	1	1	1	1	1	1	1	1
5 Annual Volume (Mcf)		612	612	612	612	612	612	612	612	612	612
6 Annual Volume (10 ³ m ³)		17	17	17	17	17	17	17	17	17	17
7 Projected Revenues		\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975
8 RATE BASE											
9 Gross Fixed Assets	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882
10 Accumulated Depreciation		\$736	\$1,471	\$2,207	\$2,942	\$3,678	\$4,413	\$5,149	\$5,885	\$6,620	\$7,356
11 Contributions	\$18,773	\$18,195	\$17,617	\$17,039	\$16,460	\$15,882	\$15,304	\$14,726	\$14,148	\$13,569	\$12,991
12 Working Capital Allowance		\$177	\$177	\$176	\$176	\$176	\$176	\$176	\$176	\$176	\$176
13 Rate Base		\$5,207	\$5,050	\$4,892	\$4,735	\$4,577	\$4,420	\$4,262	\$4,105	\$3,947	\$3,790
14 REVENUE DEFICIENCY											
15											
16 Cost of Gas		\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654
17 Operating & Maintenance Expenses		\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100
18 Depreciation Expense		\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736
19 Amortization of Contributions		(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)
20 Municipal Tax & Corp.Cap. Tax		\$536	\$532	\$529	\$525	\$521	\$517	\$514	\$510	\$506	\$503
21 Income Taxes		\$220	\$131	\$132	\$134	\$135	\$136	\$136	\$137	\$137	\$137
22 Overall Return		\$463	\$449	\$435	\$421	\$407	\$393	\$379	\$365	\$351	\$337
23 Total Revenue Requirement		\$6,130	\$6,024	\$6,007	\$5,991	\$5,975	\$5,958	\$5,941	\$5,923	\$5,906	\$5,888
24 Projected Revenues		\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975
25 Revenue Deficiency (Annual)		(\$156)	(\$49)	(\$33)	(\$17)	\$0	\$17	\$34	\$51	\$69	\$87
26 Revenue to Cost Ratio		97.5%	99.2%	99.5%	99.7%	100.0%	100.3%	100.6%	100.9%	101.2%	101.5%
27 NPV of Revenue Deficiency	391										
28 CONTRIBUTION REQUIREMENT											
29 Total Contribution Required	\$18,773										
29 Upstream Costs* - Centra											
30 Upstream Costs* - Other											

* Upstream costs are included in capital costs on line 8 above.

**Financial Feasibility Test
for Natural Gas Expansion**

	2014 (YEAR 11)	2015 (YEAR 12)	2016 (YEAR 13)	2017 (YEAR 14)	2018 (YEAR 15)	2019 (YEAR 16)	2020 (YEAR 17)	2021 (YEAR 18)	2022 (YEAR 19)	2023 (YEAR 20)
1 RM of Hamiota - Expansion Project										
2										
3 OPERATING ASSUMPTIONS										
4 Number of Customers	1	1	1	1	1	1	1	1	1	1
5 Annual Volume (Mcf)	612	612	612	612	612	612	612	612	612	612
6 Annual Volume (10 ³ m ³)	17	17	17	17	17	17	17	17	17	17
7 Projected Revenues	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975
8 RATE BASE										
9 Gross Fixed Assets	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882
10 Accumulated Depreciation	\$8,091	\$8,827	\$9,562	\$10,298	\$11,034	\$11,769	\$12,505	\$13,240	\$13,976	\$14,711
11 Contributions	\$12,413	\$11,835	\$11,256	\$10,678	\$10,100	\$9,522	\$8,944	\$8,365	\$7,787	\$7,209
12 Working Capital Allowance	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$174	\$174
13 Rate Base	\$3,632	\$3,475	\$3,317	\$3,160	\$3,002	\$2,845	\$2,687	\$2,530	\$2,372	\$2,215
14 REVENUE DEFICIENCY										
15										
16 Cost of Gas	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654
17 Operating & Maintenance Expenses	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100
18 Depreciation Expense	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736
19 Amortization of Contributions	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)
20 Municipal Tax & Corp. Cap. Tax	\$499	\$495	\$492	\$488	\$484	\$481	\$477	\$473	\$470	\$466
21 Income Taxes	\$136	\$136	\$135	\$134	\$133	\$132	\$131	\$129	\$128	\$126
22 Overall Return	\$323	\$309	\$295	\$281	\$267	\$253	\$239	\$225	\$211	\$197
23 Total Revenue Requirement	\$5,870	\$5,852	\$5,834	\$5,815	\$5,796	\$5,778	\$5,759	\$5,739	\$5,720	\$5,701
24 Projected Revenues	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975
25 Revenue Deficiency (Annual)	\$104	\$123	\$141	\$159	\$178	\$197	\$216	\$235	\$255	\$274
26 Revenue to Cost Ratio	101.8%	102.1%	102.4%	102.7%	103.1%	103.4%	103.8%	104.1%	104.5%	104.8%

**Financial Feasibility Test
for Natural Gas Expansion**

	2024 (YEAR 21)	2025 (YEAR 22)	2026 (YEAR 23)	2027 (YEAR 24)	2028 (YEAR 25)	2029 (YEAR 26)	2030 (YEAR 27)	2031 (YEAR 28)	2032 (YEAR 29)	2033 (YEAR 30)
1 RM of Hamiota - ExpanExpansion Project										
2										
3 OPERATING ASSUMPTIONS										
4 Number of Customers	1	1	1	1	1	1	1	1	1	1
5 Annual Volume (Mcf)	612	612	612	612	612	612	612	612	612	612
6 Annual Volume (10 ³ m ³)	17	17	17	17	17	17	17	17	17	17
7 Projected Revenues	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975
8 RATE BASE										
9 Gross Fixed Assets	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882	\$23,882
10 Accumulated Depreciation	\$15,447	\$16,183	\$16,918	\$17,654	\$18,389	\$19,125	\$19,861	\$20,596	\$21,332	\$22,067
11 Contributions	\$6,631	\$6,052	\$5,474	\$4,896	\$4,318	\$3,740	\$3,161	\$2,583	\$2,005	\$1,427
12 Working Capital Allowance	\$174	\$174	\$174	\$174	\$174	\$174	\$173	\$173	\$173	\$173
13 Rate Base	\$2,057	\$1,900	\$1,742	\$1,585	\$1,427	\$1,270	\$1,113	\$955	\$798	\$640
14 REVENUE DEFICIENCY										
15										
16 Cost of Gas	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654	\$4,654
17 Operating & Maintenance Expenses	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100
18 Depreciation Expense	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736	\$736
19 Amortization of Contributions	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)	(\$578)
20 Municipal Tax & Corp.Cap. Tax	\$462	\$459	\$455	\$451	\$448	\$444	\$440	\$437	\$433	\$429
21 Income Taxes	\$124	\$122	\$120	\$117	\$115	\$112	\$110	\$107	\$104	\$101
22 Overall Return	\$183	\$169	\$155	\$141	\$127	\$113	\$99	\$85	\$71	\$57
23 Total Revenue Requirement	\$5,681	\$5,661	\$5,641	\$5,621	\$5,601	\$5,581	\$5,561	\$5,540	\$5,520	\$5,499
24 Projected Revenues	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975	\$5,975
25 Revenue Deficiency (Annual)	\$294	\$313	\$333	\$353	\$373	\$394	\$414	\$434	\$455	\$476
26 Revenue to Cost Ratio	105.2%	105.5%	105.9%	106.3%	106.7%	107.1%	107.4%	107.8%	108.2%	108.6%