

400-330 Portage Avenue  
Winnipeg, Manitoba  
R3C 0C4

MANITOBA )

Order No. 181/99

THE PUBLIC UTILITIES BOARD ACT )

November 3, 1999

Before: G. D. Forrest, Chairman  
D.L. Barrett-Hrominchuk, Member  
J. A. MacDonald, Member

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

- 1. AUTHORIZING AND APPROVING AN AMENDMENT TO  
THE EXISTING FRANCHISE AGREEMENT BETWEEN  
CENTRA AND THE RURAL MUNICIPALITY OF GREY**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR  
THE EXPANSION OF NATURAL GAS TO TWO  
CUSTOMERS WITHIN THE EXPANDED FRANCHISE  
AREA**

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**APPENDIX "A"**

**APPENDIX "B"**

## 1.0 The Application

On October 26, 1999 Centra Gas Manitoba Inc. ("Centra") applied to the Manitoba Public Utilities Board ("the Board") for interim ex-parte approval of an amendment to the existing franchise agreement between Centra and the Rural Municipality of Grey ("Grey"), and interim ex-parte approval of the financial feasibility test for expansion of Centra's distribution system to serve two customers within the new franchise area.

## 2.0 Franchise Agreement

Centra currently has a franchise agreement for a portion of Grey. The proposed amendment would add two quarter sections, (NW Sec. 10-8-7W and NE Sec. 9-8-7W) to the existing franchise area, as shown on Appendix "A" attached to this Order, but still would not include the entire area of Grey. Grey gave first reading to By-Law No. 8/99 on October 4, 1999 which authorized Grey to enter into an agreement with Centra amending the existing franchise agreement, subject to approval of the Board. Second and third reading of the By-Law will only be considered if the Board approves the amended franchise pursuant to Section 89 of the Public Utilities Board Act. Centra proposed to install the necessary plant so that natural gas could flow in early November, and to seek final approval at the next General Rate Application or some other appropriate proceeding.

### 3.0 Customer Attachments, Volumes and Forecast Revenues

In the fall of 1999, a dairy farmer within Grey, having determined that natural gas was the most economical alternative, requested Centra to supply natural gas for his boiler which was to be converted from coal. The estimated annual consumption was 5,665 cubic metres for space and hot water heat for a barn and a residence. The estimated consumption was based on an analysis of the individual's existing and new equipment energy requirements.

Additionally, a residential customer located across the highway from the dairy farm requested natural gas service for his dwelling. Centra used its average annual residential consumption of 2,832.8 cubic metres to estimate the gas consumption for this customer. No other customers or volumes were included in the feasibility test. Centra estimated the annual revenues by applying the appropriate base rates approved by the Board in Order 126/99, dated July 12, 1999.

#### 4.0 System Design and Capital Costs

The system to serve the two customers would be an extension of an existing 60.3 mm polyethylene main from the Village of St. Claude westerly to PTH # 240, and then southerly to the two customer's premises. The proposed pipeline route is also shown on Appendix "A". The length of the distribution main is estimated to be 603 metres and therefore does not require environmental approval, pursuant to the Environment Act. Project drawings will be submitted by Centra to appropriate authorities upon project approval and completion of design.

Centra indicated that the installation techniques would be dictated by local conditions and could include open cut, boring and/or ploughing. The cost estimates are in 1999 dollars and included the following assumptions:

- 5% labour and materials contingency
- 1% interest during construction to contract labour and materials
- 24% overheads, consisting of 9% construction supervision, 5% engineering, 4% Project Administration, 5% marketing, and 1% overhead contingency

Estimated capital costs for the project are \$16,048, to be spent in the first year. Capital costs are summarized in the feasibility test, attached as Appendix "B" to this Order.

## 5.0 Feasibility Test Methodology and Results

The Methodology used by Centra in this feasibility test is identical to that used in other recent applications, and reflects Board directives to use the weighted average cost of gas (“WACOG”) for estimating gas costs. Centra used a WACOG of \$0.14039 per cubic metre, which was approved by the Board in Order 118/99, dated June 29, 1999. Other cost assumptions include:

- Annual operating and maintenance costs are \$100 per customer.
- Depreciation expense is specific to plant installed and is 3.08%, based on the Centra’s 1998 weighted average cost for distribution plant.
- Municipal property tax is calculated using current provincial assessed rates and the applicable 1999 mill rate. Corporate capital tax is calculated at a rate of 0.5% of net plant, prior to any contributions.
- Income Tax calculation assumes a combined Federal and Provincial corporate rate of 46.12%.
- Overall rate of return is 8.893%, as last approved by the Board in Order 17/98, dated June 19, 1998.

Applying the above cost assumptions and the calculated annual revenues to the Board approved 30 year NPV test results in a required customer contributions of \$14,505, with Centra’s allowable investment being \$1,543. With customer contributions of \$14,505, the fifth year revenue to cost ratio is 1.00. Appendix “B” details all 30-year NPV costs and revenues.

The required customer contributions to be provided by the dairy farmer is \$11,432 and the amount of \$3,073 is to be provided by the residential customer. Centra indicates the contributions have been paid and are being held by Centra.

## 6.0 Board Findings

The Board recognizes that the prospective dairy farm customer requires heat for the operation immediately, as does the residential customer. The Board is also cognizant of the fact that Centra's allowable investment for this project is limited to \$1,543. The Board wishes to emphasize that franchise applications and expansion projects would not normally be dealt with on an interim ex parte basis. However, because of the urgency of the dairy farmer's circumstance and the relatively small investment required by Centra, the Board will approve this application on an interim ex-parte basis, as requested by Centra. The Board considers the financial risk to existing system customers as a result of this application to be limited. The Board will seek confirmation that Centra has assisted the customers by providing them with full details of their contributions, conversions, energy savings and payback periods, prior to commencing construction of the system.

The Board considers Centra's system design and capital cost estimates to be reasonable and notes that Centra has used other feasibility test costs, including the currently approved weighted average cost of gas, as well as estimated revenues in a manner consistent with previous applications.

7.0 IT IS THEREFORE ORDERED THAT:

1. The proposed amendment to the Franchise Agreement between the Rural Municipality of Grey and Centra Gas Manitoba Inc. **BE AND IS HEREBY APPROVED**, on an interim ex-parte basis.
2. The feasibility test as submitted by Centra Gas Manitoba Inc. **BE AND IS HEREBY APPROVED**, on an interim ex-parte basis.
3. Prior to commencement of construction, Centra Gas Manitoba Inc. confirm to the Board that Centra Gas Manitoba Inc. has explained to the two customers the full details of all customer costs associated with conversion to natural gas, anticipated energy savings and payback period.
4. Centra Gas Manitoba apply for final disposition of this Order at the next earliest opportunity, but no later than June 30, 2000.

THE PUBLIC UTILITIES BOARD

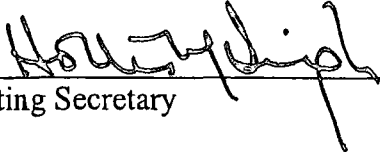
"G. D. FORREST"

Chairman

"H. M. SINGH"

Acting Secretary

Certified a true copy of Order No.  
181/99 issued by The Public Utilities  
Board

  
Acting Secretary

SE SEC. 16-8-7W

Village of  
St. Claude

R.M. of  
Grey

R.M. of  
Grey


NE SEC. 9-8-7W

NW SEC. 10-8-7W

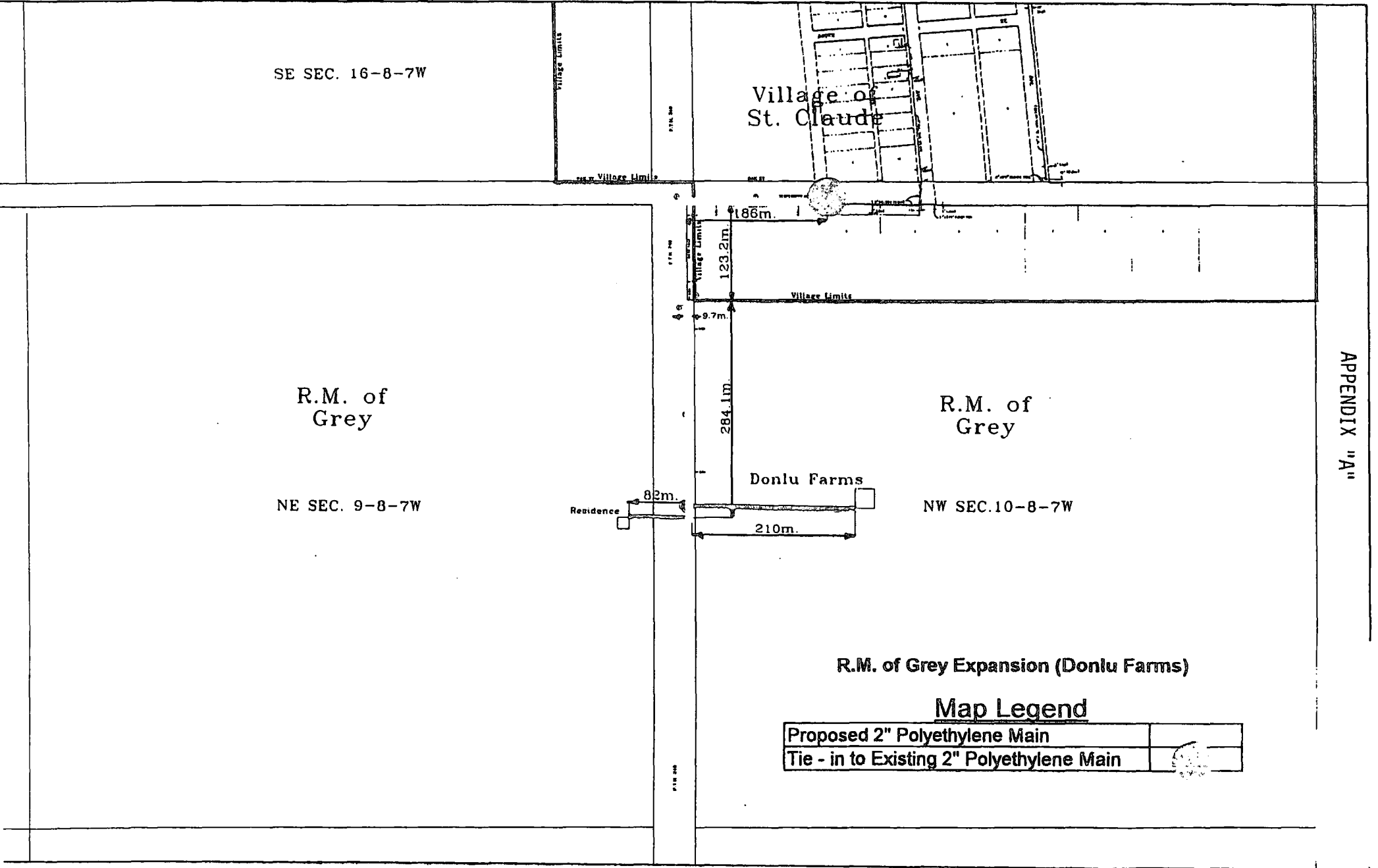
Donlu Farms

R.M. of Grey Expansion (Donlu Farms)

**Map Legend**

Proposed 2" Polyethylene Main	
Tie - in to Existing 2" Polyethylene Main	

APPENDIX "A"



Rural Expansion  
Financial Feasibility Test

1 RM of Grey Expansion

2	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
		(YEAR 1)	(YEAR 2)	(YEAR 3)	(YEAR 4)	(YEAR 5)	(YEAR 6)	(YEAR 7)	(YEAR 8)	(YEAR 9)	(YEAR 10)

3 OPERATING ASSUMPTIONS

4 Number of Customers		2	2	2	2	2	2	2	2	2	2
5 Annual Volume (10 <sup>3</sup> m <sup>3</sup> )		8	8	8	8	8	8	8	8	8	8
6 Annual Volume (Mcf)		300	300	300	300	300	300	300	300	300	300
7 Projected Revenues		\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067

8 RATE BASE

9 Gross Fixed Assets	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048
10 Accumulated Depreciation		\$494	\$989	\$1,483	\$1,977	\$2,471	\$2,966	\$3,460	\$3,954	\$4,449	\$4,943
11 Contributions	\$14,505	\$14,058	\$13,612	\$13,165	\$12,718	\$12,271	\$11,825	\$11,378	\$10,931	\$10,484	\$10,038
12 Working Capital Allowance		\$61	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60
13 Rate Base		\$1,580	\$1,532	\$1,484	\$1,437	\$1,389	\$1,342	\$1,294	\$1,246	\$1,199	\$1,151

14 REVENUE DEFICIENCY

15 Revenue Requirement											
16 Cost of Gas		\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193
17 Operating & Maintenance Expenses		\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200
18 Depreciation Expense		\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494
19 Amortization of Contributions		(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)
20 Municipal Tax & Corp.Cap. Tax		\$472	\$469	\$467	\$464	\$462	\$459	\$457	\$454	\$452	\$449
21 Income Taxes		\$67	\$40	\$40	\$41	\$41	\$41	\$41	\$41	\$42	\$41
22 Overall Return		\$140	\$136	\$132	\$128	\$124	\$119	\$115	\$111	\$107	\$102
23 Total Revenue Requirement		\$2,119	\$2,086	\$2,080	\$2,073	\$2,067	\$2,060	\$2,054	\$2,047	\$2,041	\$2,034
24 Projected Revenues		\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067
25 Revenue Deficiency (Annual)		(\$53)	(\$19)	(\$13)	(\$6)	\$0	\$8	\$13	\$20	\$26	\$33
26 Revenue to Cost Ratio		97.5%	99.1%	99.4%	99.7%	100.0%	100.3%	100.6%	101.0%	101.3%	101.6%

27 CONTRIBUTION REQUIREMENT

28 Total Contribution Required	\$14,505
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Rural Expansion  
Financial Feasibility Test

1 RM of Grey Expansion

2	2010 (YEAR 11)	2011 (YEAR 12)	2012 (YEAR 13)	2013 (YEAR 14)	2014 (YEAR 15)	2015 (YEAR 16)	2016 (YEAR 17)	2017 (YEAR 18)	2018 (YEAR 19)	2019 (YEAR 20)
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3 OPERATING ASSUMPTIONS

4 Number of Customers	2	2	2	2	2	2	2	2	2	2
5 Annual Volume (10 <sup>3</sup> m <sup>3</sup> )	8	8	8	8	8	8	8	8	8	8
6 Annual Volume (Mcf)	300	300	300	300	300	300	300	300	300	300
7 Projected Revenues	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,087	\$2,087	\$2,067	\$2,067	\$2,067

8 RATE BASE

9 Gross Fixed Assets	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048
10 Accumulated Depreciation	\$5,437	\$5,931	\$6,426	\$6,920	\$7,414	\$7,908	\$8,403	\$8,897	\$9,391	\$9,886
11 Contributions	\$9,591	\$9,144	\$8,697	\$8,251	\$7,804	\$7,357	\$6,910	\$6,464	\$6,017	\$5,570
12 Working Capital Allowance	\$60	\$80	\$60	\$59	\$59	\$59	\$59	\$59	\$59	\$59
13 Rate Base	\$1,104	\$1,056	\$1,008	\$961	\$913	\$866	\$818	\$770	\$723	\$675

14 REVENUE DEFICIENCY

15 Revenue Requirement										
16 Cost of Gas	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193
17 Operating & Maintenance Expenses	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200
18 Depreciation Expense	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494
19 Amortization of Contributions	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)
20 Municipal Tax & Corp.Cap. Tax	\$447	\$444	\$442	\$439	\$437	\$435	\$432	\$430	\$427	\$425
21 Income Taxes	\$41	\$41	\$41	\$41	\$40	\$40	\$40	\$39	\$39	\$38
22 Overall Return	\$98	\$94	\$90	\$85	\$81	\$77	\$73	\$69	\$64	\$60
23 Total Revenue Requirement	\$2,027	\$2,020	\$2,013	\$2,006	\$1,999	\$1,992	\$1,985	\$1,978	\$1,971	\$1,964
24 Projected Revenues	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067
25 Revenue Deficiency (Annual)	\$40	\$47	\$53	\$60	\$67	\$75	\$82	\$89	\$96	\$103
26 Revenue to Cost Ratio	102.0%	102.3%	102.7%	103.0%	103.4%	103.7%	104.1%	104.5%	104.9%	105.3%

27 CONTRIBUTION REQUIREMENT

28 Total Contribution Required

Rural Expansion  
Financial Feasibility Test

RM of Grey Expansion

1 RM of Grey Expansion

2	2020 (YEAR 21)	2021 (YEAR 22)	2022 (YEAR 23)	2023 (YEAR 24)	2024 (YEAR 25)	2025 (YEAR 26)	2026 (YEAR 27)	2027 (YEAR 28)	2028 (YEAR 29)	2029 (YEAR 30)
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3 OPERATING ASSUMPTIONS

4 Number of Customers	2	2	2	2	2	2	2	2	2	2
5 Annual Volume (10 <sup>3</sup> m <sup>3</sup> )	8	8	8	8	8	8	8	8	8	8
6 Annual Volume (Mcf)	300	300	300	300	300	300	300	300	300	300
7 Projected Revenues	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067

8 RATE BASE

9 Gross Fixed Assets	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048	\$16,048
10 Accumulated Depreciation	\$10,380	\$10,874	\$11,368	\$11,863	\$12,357	\$12,851	\$13,346	\$13,840	\$14,334	\$14,828
11 Contributions	\$5,123	\$4,676	\$4,230	\$3,783	\$3,336	\$2,889	\$2,443	\$1,996	\$1,549	\$1,102
12 Working Capital Allowance	\$59	\$59	\$59	\$59	\$59	\$59	\$58	\$58	\$58	\$58
13 Rate Base	\$628	\$580	\$532	\$485	\$437	\$390	\$342	\$294	\$247	\$199

14 REVENUE DEFICIENCY

15 Revenue Requirement										
16 Cost of Gas	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193	\$1,193
17 Operating & Maintenance Expenses	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200
18 Depreciation Expense	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494	\$494
19 Amortization of Contributions	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)	(\$447)
20 Municipal Tax & Corp.Cap. Tax	\$422	\$420	\$417	\$415	\$412	\$410	\$407	\$405	\$402	\$400
21 Income Taxes	\$38	\$37	\$36	\$36	\$35	\$34	\$33	\$33	\$32	\$31
22 Overall Return	\$56	\$52	\$47	\$43	\$39	\$35	\$30	\$26	\$22	\$18
23 Total Revenue Requirement	\$1,956	\$1,949	\$1,842	\$1,834	\$1,927	\$1,919	\$1,912	\$1,904	\$1,897	\$1,889
24 Projected Revenues	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067	\$2,067
25 Revenue Deficiency (Annual)	\$111	\$118	\$125	\$133	\$140	\$148	\$155	\$163	\$170	\$178
26 Revenue to Cost Ratio	105.7%	106.0%	106.5%	106.9%	107.3%	107.7%	108.1%	108.5%	109.0%	109.4%

27 CONTRIBUTION REQUIREMENT

28 Total Contribution Required