

MANITOBA
THE PUBLIC UTILITIES BOARD ACT

Order No. 54/05
April 19, 2005

Before: Graham F. J. Lane, B.A., C.A., Chairman
Monica Girouard, C.G.A., Member
Mario J. Santos, B.A., LL.B, 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 ROSSER.**
- 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO SERVICE ONE COMMERCIAL CUSTOMER WITHIN AN EXPANDED FRANCHISE AREA.**

1.0 The Application

On April 4, 2005 Centra Gas Manitoba Inc. (“Centra”) applied to The Manitoba Public Utilities Board (“the Board”) for:

- a) interim ex parte approval and authorization of a franchise agreement between Centra and the Rural Municipality of Rosser (“RM”); and
- b) 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 has a franchise agreement with the RM, it having been entered into on October 15, 1965. Centra would extend natural gas service to a commercial establishment located in NW ¼, Section 15, Township 12, Range 2 EPM.

Centra deemed it prudent to apply for franchise for the entire E½ of the Section, thereby avoiding the necessity for a crossing agreement through the SE ¼ of this section. Centra canvassed the area to determine if there were other potential customers, but the two small commercial and two residential property owners contacted expressed no interest in the service at this time.

The RM gave first reading of a by-law permitting Centra to obtain the franchise area to serve the commercial customer on June 10, 2003, and indicated that it would process the franchise agreement and by-law upon Board approval of this application.

3.0 Customer Attachments, Volumes and Forecast Revenues

Centra was requested to provide service by the commercial customer, for an anticipated in-service date of May 2005. This customer's estimated annual consumption is 153,138 cubic metres, this estimate based on the square footage method for estimating space-heating load and an anticipated expansion to the existing buildings for the existing facilities.

Annual volumes for the first year for this customer have been included at 100% for the first and subsequent years. The volumes associated with the proposed expansion of 8,269m³ have been added to Year 1 of the project (2006) at 50%, and at 100% for subsequent years. The revenue was estimated using the Large General Service ("LGS") sales rate approved by the Board in Orders 12/05 and 13/05.

4.0 System Design and Capital Costs

The proposed main extension will tie-in to an existing 114.3 mm (NPS 4") steel distribution pipe located on the east side of Brookside Boulevard at Jefferson Avenue. The main extension will cross Brookside Boulevard and be installed along the west side of Highway 7 extending north for approximately 6 687m (21 939 feet).

A 60.3 mm (NPS 2") main is required to supply natural gas to this customer. However, to accommodate future growth in the area, Centra will be increasing the 3,700 m of 60.3 mm (NPS 2") pipe to 114.3 mm (NPS 4"). The incremental cost will be \$36 200, which will be treated as system betterment and excluded from the feasibility test.

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 except for Centra's proposed 4" pipe at an estimated cost of \$36,200.

Centra's cost estimates are expressed in current (2005) dollars and include the following assumptions:

- 10% 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.

These assumptions are consistent with similar expansions completed in prior years except for the level of contingency, which has been increased from 5% to 10% to cover expected increases in construction material costs.

Estimated capital costs for the project are \$106,486, and are summarized in the feasibility test attached as Appendix "A" to this Order. These costs include the installation of a distribution line, service and meter set to the commercial customer, but not the incremental cost of \$36,200 associated with the 4" pipe.

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 12/05 and 13/05 to calculate project costs and revenues. The following additional assumptions were used:

- Annual operating and maintenance costs of \$100 per customer.
- Depreciation rate of 2.33%, based on the Centra's 2003/04 weighted average depreciation rate for the distribution plant.
- Municipal property tax based on 2004 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.
- Overall rate of return of 8.10% on a capital structure, the rate as last approved by the Board in Order 131/04.

- Net Present Value is discounted at the weighted average cost of capital of 8.10%.

Centra submitted that applying the Board-approved 30-year net present value (“NPV”) test results in a required customer contribution of \$71,514. With this contribution, the project generates the required revenue to cost (“R/C”) ratio of 1.0 by the fifth year, as required by the Board.

Centra’s capital contribution to this project is estimated to be \$34,972, and it has received a deposit of \$20,000 from the customer (\$18,691.59 + GST). Centra intends to collect the balance of \$56,519.98 (\$52,822.41 + GST), upon receipt of the Board’s Order and before construction begins.

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 of the feasibility test indicate that the R/C ratio in year five of the project is 1.0, given a customer contribution of \$71,514 is received, and that this 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 that if any other customers are served from this distribution main, 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 as soon as any other customer begins to consume gas. The Board will also require Centra to provide a “true-up” report by December 31, 2010 in respect of this expansion.

The Board, through its Advisor ECI, 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.

The Board understands that some allowance for growth is normally incorporated into system designs, and that all capital costs are to be included in the feasibility study. The Board therefore will require that the incremental cost associated with the 4” pipe be treated as Construction Work In Progress (“CWIP”). The incremental cost is not to be included in Rate Base until such time as the additional capacity is required, and the asset represented by the increased pipe size becomes a used and useful asset.

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 meet the service requirements of the new customer, 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 Rosser 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, 2010.
6. Centra treat all costs associated with the 4” pipe as Construction Work in Progress and not include said costs in Rate Base until such time as additional capacity is required.
7. 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

**Financial Feasibility Test
for Natural Gas Expansion**

1 RM of Rosser (Commercial Project Site) - Expansion Project

2	2005 (Time 0)	2006 (YEAR 1)	2007 (YEAR 2)	2008 (YEAR 3)	2009 (YEAR 4)	2010 (YEAR 5)	2011 (YEAR 6)	2012 (YEAR 7)	2013 (YEAR 8)	2014 (YEAR 9)	2015 (YEAR 10)
3 OPERATING ASSUMPTIONS											
4 Number of Customers		1	1	1	1	1	1	1	1	1	1
5 Annual Volume (Mcf)		5,262	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408
6 Annual Volume (10 ³ m ³)		149	153	153	153	153	153	153	153	153	153
7 Projected Revenues		C\$50,535	C\$51,914								
8 RATE BASE											
9 Gross Fixed Assets	C\$106,486										
10 Accumulated Depreciation		C\$2,481	C\$4,962	C\$7,443	C\$9,924	C\$12,406	C\$14,887	C\$17,368	C\$19,849	C\$22,330	C\$24,811
11 Contributions	C\$71,514	C\$69,848	C\$68,181	C\$66,515	C\$64,849	C\$63,183	C\$61,516	C\$59,850	C\$58,184	C\$56,517	C\$54,851
12 Working Capital Allowance		C\$2,231	C\$2,288	C\$2,288	C\$2,287	C\$2,286	C\$2,286	C\$2,285	C\$2,285	C\$2,284	C\$2,284
13 Rate Base		C\$36,795	C\$36,038	C\$35,222	C\$34,407	C\$33,591	C\$32,776	C\$31,960	C\$31,145	C\$30,330	C\$29,514
14 REVENUE DEFICIENCY											
15											
16 Cost of Gas		C\$44,285	C\$45,513								
17 Operating & Maintenance Expenses		C\$100									
18 Depreciation Expense		C\$2,481									
19 Amortization of Contributions		(C\$1,666)									
20 Municipal Tax & Corp.Cap. Tax		C\$2,816	C\$2,804	C\$2,792	C\$2,779	C\$2,767	C\$2,754	C\$2,742	C\$2,730	C\$2,717	C\$2,705
21 Income Taxes		C\$0									
22 Overall Return		C\$2,979	C\$2,917	C\$2,851	C\$2,785	C\$2,719	C\$2,653	C\$2,587	C\$2,521	C\$2,455	C\$2,389
23 Total Revenue Requirement		C\$50,995	C\$52,150	C\$52,071	C\$51,993	C\$51,914	C\$51,836	C\$51,757	C\$51,679	C\$51,601	C\$51,522
24 Projected Revenues		C\$50,535	C\$51,914								
25 Revenue Deficiency (Annual)		(C\$459)	(C\$235)	(C\$157)	(C\$78)	(C\$0)	C\$78	C\$157	C\$235	C\$314	C\$392
26 Revenue to Cost Ratio		99.1%	99.5%	99.7%	99.8%	100.0%	100.2%	100.3%	100.5%	100.6%	100.8%
27 NPV of Revenue Deficiency	4361										
28 CONTRIBUTION REQUIREMENT											
29 Total Contribution Required	C\$71,514										
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**

1 RM of Rosser (Commercial Project Site) - Expansion Project

2	2016 (YEAR 11)	2017 (YEAR 12)	2018 (YEAR 13)	2019 (YEAR 14)	2020 (YEAR 15)	2021 (YEAR 16)	2022 (YEAR 17)	2023 (YEAR 18)	2024 (YEAR 19)	2025 (YEAR 20)
3 OPERATING ASSUMPTIONS										
4 Number of Customers	1	1	1	1	1	1	1	1	1	1
5 Annual Volume (Mcf)	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408
6 Annual Volume (10 ³ m ³)	153	153	153	153	153	153	153	153	153	153
7 Projected Revenues	C\$51,914									
8 RATE BASE										
9 Gross Fixed Assets	C\$106,486									
10 Accumulated Depreciation	C\$27,292	C\$29,773	C\$32,254	C\$34,736	C\$37,217	C\$39,698	C\$42,179	C\$44,660	C\$47,141	C\$49,622
11 Contributions	C\$53,185	C\$51,519	C\$49,852	C\$48,186	C\$46,520	C\$44,854	C\$43,187	C\$41,521	C\$39,855	C\$38,188
12 Working Capital Allowance	C\$2,283	C\$2,282	C\$2,282	C\$2,281	C\$2,281	C\$2,280	C\$2,279	C\$2,279	C\$2,278	C\$2,278
13 Rate Base	C\$28,699	C\$27,883	C\$27,068	C\$26,252	C\$25,437	C\$24,622	C\$23,806	C\$22,991	C\$22,175	C\$21,360
14 REVENUE DEFICIENCY										
15										
16 Cost of Gas	C\$45,513									
17 Operating & Maintenance Expenses	C\$100									
18 Depreciation Expense	C\$2,481									
19 Amortization of Contributions	(C\$1,666)									
20 Municipal Tax & Corp.Cap. Tax	C\$2,692	C\$2,680	C\$2,668	C\$2,655	C\$2,643	C\$2,630	C\$2,618	C\$2,606	C\$2,593	C\$2,581
21 Income Taxes	C\$0									
22 Overall Return	<u>C\$2,323</u>	<u>C\$2,257</u>	<u>C\$2,191</u>	<u>C\$2,125</u>	<u>C\$2,059</u>	<u>C\$1,993</u>	<u>C\$1,927</u>	<u>C\$1,861</u>	<u>C\$1,795</u>	<u>C\$1,729</u>
23 Total Revenue Requirement	C\$51,444	C\$51,365	C\$51,287	C\$51,209	C\$51,130	C\$51,052	C\$50,973	C\$50,895	C\$50,816	C\$50,738
24 Projected Revenues	<u>C\$51,914</u>									
25 Revenue Deficiency (Annual)	<u>C\$471</u>	<u>C\$549</u>	<u>C\$627</u>	<u>C\$706</u>	<u>C\$784</u>	<u>C\$863</u>	<u>C\$941</u>	<u>C\$1,019</u>	<u>C\$1,098</u>	<u>C\$1,176</u>
26 Revenue to Cost Ratio	100.9%	101.1%	101.2%	101.4%	101.5%	101.7%	101.8%	102.0%	102.2%	102.3%

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**Financial Feasibility Test
for Natural Gas Expansion**

1 RM of Rosser (Commercial Project Site) - Expansion Project

2	2026 (YEAR 21)	2027 (YEAR 22)	2028 (YEAR 23)	2029 (YEAR 24)	2030 (YEAR 25)	2031 (YEAR 26)	2032 (YEAR 27)	2033 (YEAR 28)	2034 (YEAR 29)	2035 (YEAR 30)
3 OPERATING ASSUMPTIONS										
4 Number of Customers	1	1	1	1	1	1	1	1	1	1
5 Annual Volume (Mcf)	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408	5,408
6 Annual Volume (10 ³ m ³)	153	153	153	153	153	153	153	153	153	153
7 Projected Revenues	C\$51,914									
8 RATE BASE										
9 Gross Fixed Assets	C\$106,486									
10 Accumulated Depreciation	C\$52,103	C\$54,584	C\$57,066	C\$59,547	C\$62,028	C\$64,509	C\$66,990	C\$69,471	C\$71,952	C\$74,433
11 Contributions	C\$36,522	C\$34,856	C\$33,190	C\$31,523	C\$29,857	C\$28,191	C\$26,525	C\$24,858	C\$23,192	C\$21,526
12 Working Capital Allowance	C\$2,277	C\$2,276	C\$2,276	C\$2,275	C\$2,275	C\$2,274	C\$2,274	C\$2,273	C\$2,272	C\$2,272
13 Rate Base	C\$20,544	C\$19,729	C\$18,914	C\$18,098	C\$17,283	C\$16,467	C\$15,652	C\$14,837	C\$14,021	C\$13,206
14 REVENUE DEFICIENCY										
15										
16 Cost of Gas	C\$45,513									
17 Operating & Maintenance Expenses	C\$100									
18 Depreciation Expense	C\$2,481									
19 Amortization of Contributions	(C\$1,666)									
20 Municipal Tax & Corp.Cap. Tax	C\$2,568	C\$2,556	C\$2,544	C\$2,531	C\$2,519	C\$2,506	C\$2,494	C\$2,482	C\$2,469	C\$2,457
21 Income Taxes	C\$0									
22 Overall Return	<u>C\$1,663</u>	<u>C\$1,597</u>	<u>C\$1,531</u>	<u>C\$1,465</u>	<u>C\$1,399</u>	<u>C\$1,333</u>	<u>C\$1,267</u>	<u>C\$1,201</u>	<u>C\$1,135</u>	<u>C\$1,069</u>
23 Total Revenue Requirement	C\$50,660	C\$50,581	C\$50,503	C\$50,424	C\$50,346	C\$50,268	C\$50,189	C\$50,111	C\$50,032	C\$49,954
24 Projected Revenues	<u>C\$51,914</u>									
25 Revenue Deficiency (Annual)	<u>C\$1,255</u>	<u>C\$1,333</u>	<u>C\$1,412</u>	<u>C\$1,490</u>	<u>C\$1,568</u>	<u>C\$1,647</u>	<u>C\$1,725</u>	<u>C\$1,804</u>	<u>C\$1,882</u>	<u>C\$1,960</u>
26 Revenue to Cost Ratio	102.5%	102.6%	102.8%	103.0%	103.1%	103.3%	103.4%	103.6%	103.8%	103.9%

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