

MANITOBA) **Order No. 102/06**
)
THE PUBLIC UTILITIES BOARD ACT) **July 05, 2006**

Before: Graham F. J. Lane, B.A., C.A., Chairman
Monica Girouard, C.G.A., Member
Mario J. Santos, B.A., LL.B., 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 GAS MANITOBA INC. AND THE RURAL MUNICIPALITY OF ROCKWOOD.**
 - 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS SERVICE TO EIGHT CUSTOMERS WITHIN THE PROPOSED FRANCHISE AREA.**
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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) approves Centra Gas Manitoba Inc.'s (Centra) application for interim ex-parte approval of:

- a) an amendment to the existing franchise agreement between Centra and the Rural Municipality of Rockwood (Rockwood); and
- b) the financial feasibility test for expansion of Centra's distribution system to serve eight commercial customers within Rockwood's expanded franchise area.

2.0 The Application

On June 16, 2006, Centra applied to the Board pursuant to the Section 45 of the *Public Utilities Board Act* on its own behalf and on behalf of Rockwood for interim ex-parte approval and authorization of an amendment to the existing franchise agreement between Centra and Rockwood. Centra also requested interim ex-parte approval of the financial feasibility test for expansion of Centra's distribution system to serve eight commercial customers within the expanded franchise area.

Centra's current franchise agreement with Rockwood covers only a portion of Rockwood. In 2005, Centra was asked to extend natural gas service to eight commercial establishments located within Rockwood, but outside of Centra's existing franchise area.

Centra's view is that the interests of Rockwood and potential future customers would be best served by amending the existing Franchise Agreement to include all sections and portions of sections located on either side of the proposed extension. Centra submitted this would avoid the necessity for separate crossing agreements with Rockwood for those sections. Thus, Centra requested that the franchise area be comprised of:

- * Sections 25 and 36, Township 15, Range 1 EPM
- * Sections 28, 29, 30, 31, 32, and 33, Township 15, Range 2 EPM
- * S½ 25, and all of Sections 1, 12, 13 and 24, Township 16, Range 1 EPM; and

- * SW ¼ 29, S½ 30, SW¼ 21, S ½ 20, NW ¼ 20, and all of Sections 4, 5, 6, 7, 8, 9, 10, 11, 14, 17, 18, 19, and 23, Township 16, Range 2 EPM

Rockwood gave first reading to By-Law No. 12/06 on June 14, 2006 which authorized Rockwood to amend the franchise agreement with Centra by including the additional area, subject to approval of the Board. The expanded franchise area is more than necessary to service the identified potential customers but does not cover the entire municipality. Centra submits that it is essential for the proposed new customers, all involved in the turkey industry, be able to convert from propane to natural gas before the winter season.

Centra proposed to begin construction mobilization activities immediately upon issuance of an Order to allow for plant installation in August 2006. Centra will seek confirmation of this interim Order at the next appropriate regulatory public hearing.

3.0 Customer Attachments, Volumes and Forecast Revenues

All of the eight potential customers were included for purposes of the feasibility test. Each of these potential customers currently uses propane as the primary heating fuel. The estimated annual natural gas consumption of 446,564 cubic metres was based on the customer's actual propane usage. Annual volumes for the first year and subsequent years have been projected at 100%.

Centra calculated the annual revenues for the eight customers by applying the sales rates approved in Order 64/06, dated May 1, 2006 for the Large General Service (LGS) and Small General Service (SGS)" customer classes to the estimated annual volumes.

4.0 System Design and Capital Costs

Centra proposed to provide service to the customers by extending Centra's existing 60.3-mm polyethylene distribution pipe in the Town of Teulon with a new 88.9-mm polyethylene pipe from the Teulon Town Border Station.

The expansion requires an estimated 14,504 metres of the 60.3-mm and 6,889 metres of 88.9-mm polyethylene pipe, all to be installed within existing government road allowances of private easements. Polyethylene service line would be constructed to the customers' facilities.

As this project requires more than 10 kilometers of pipe to be installed, it is classified as a Class 2 development under the Manitoba Environment Act that generally requires the proponent to obtain approval from Manitoba Conservation. Centra submitted that Manitoba Conservation had informed it that a formal submission was not required, the area of planned installation is not sensitive to environmental disturbance. Project drawings will be submitted by Centra to the appropriate authorities upon approval of this application by the Board.

Centra's cost estimates are expressed in current (2006) dollars and include the following assumptions:

- 10% labour and materials contingency
- 1% interest during construction to contract labour and materials
- 24% overheads, consisting of 10.5% construction supervision, 3.5% engineering, 4% project administration, 5% marketing, and 1% contingency

Estimated capital costs for the project are \$404,926, to be spent in the first year. Capital costs are summarized in the feasibility test, attached as Appendix "A" to this Order.

5.0 Feasibility Test Methodology and Results

Centra used LGS and SGS weighted average cost of gas rate as approved by the Board Order 64/06 to calculate project revenues, and:

- Annual operating and maintenance costs are projected at \$100 per customer.
- Depreciation expense is specific to plant installed and is 2.36%, based on the Centra's 2006/07 weighted average cost for distribution plant.
- Municipal property tax was calculated using 2005 mill rates and 2006 assessment rates.
- Corporate capital tax was calculated at a rate of 0.5% of net plant, prior to any customer contributions.
- Centra's capital structure and cost of capital was projected at 7.68%, as approved by Board Order 135/05, dated October 12, 2005

Centra submitted that the Board approved 30-year net present value (NPV) test results in a required customer contribution of \$267,129, using a discount rate of 7.68% (Centra's cost of capital as approved in Order 135/05). The NPV test requires that the revenue to cost (R/C) ratio be no less than 1.0 in the fifth year. With this contribution the project generates a R/C ratio of 1.00 in the fourth year and does not fall below 1.0 for the duration of the project.

Appendix "A" details all 30-year NPV costs and revenues, and demonstrates that a customer contribution of \$267,129 is required. Pursuant to Order 103/05, customers in the proposed franchise area are required to provide Centra with non-refundable connection fee based on each customer's estimated hourly consumption. These fees amount to \$15,168 of the required contributions and consist of \$833 for the customer with the least consumption, one customer at \$1,333 and six customers at \$2,167.

Each customer's contribution was calculated based on assigning the cost of providing the specific service to each customer, while the shared costs were allocated based on the respective customer's peak hourly flows.

A "true-up" for the project will be completed at the end of five years, i.e. December 31, 2011, to determine if a refund, except for connection fees, is due to these customers.

6.0 Board Findings

The Board notes that the application was filed in a manner consistent with the Board's requirements to have system extension applications supported by prior Board approved feasibility tests. The results flowing from the feasibility test indicate that the R/C ratio in year four of the project is 1.00 if a customer contribution of \$267,129 is received, which satisfies the required NPV test criteria. The Board is satisfied that the non-refundable connection fees were properly applied, and that the customer contributions were allocated to all eight customers in a manner consistent with Centra's cost of service and cost allocation principles.

The Board agrees with Centra's rationale in determining the extent of the expansion area and will approve the entire area, as applied for, to be included in the amended franchise agreement.

The Board has reviewed the system designs, as well as the feasibility test cost and revenue inputs and is satisfied that the Board's expansion criteria have been properly met. The Board finds the cost estimates used by Centra to be reasonable, and that the calculated revenues properly reflect sales rates in effect on May 1, 2006.

The Board is satisfied that the need to commence construction as soon as possible to enable gas to flow this fall justifies proceeding on an interim ex parte basis. Accordingly, the Board will approve the application on this basis provided that the required customer

contributions are collected by Centra prior to construction beginning. The Board will also require Centra to provide a five year "true-up" report by no later than December 31, 2011.

7.0 IT IS THEREFORE ORDERED THAT:

1. The amendment to the existing Franchise Agreement between the Rural Municipality of Rockwood 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 Gas Manitoba Inc. collect the remainder of the required customer contributions prior to project construction start.
4. Centra submit a "true-up" report to the Board respecting this application by no later than December 31, 2011.
5. That this interim Order remain in full effect until confirmed or otherwise by a subsequent Order of the Board.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"H. Singh"
Acting Secretary

Certified a true copy of Order No. 102/06
issued by The Public Utilities Board

Acting Secretary

Financial Feasibility Test

1 RM of Rockwood Expansion Project

2

	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
	YEAR_21	YEAR_22	YEAR_23	YEAR_24	YEAR_25	YEAR_26	YEAR_27	YEAR_28	YEAR_29	YEAR_30

3 OPERATING ASSUMPTIONS

4										
5	Number of Customers	8	8	8	8	8	8	8	8	8
6	Annual Volume (Mcf)	15,820	15,820	15,820	15,820	15,820	15,820	15,820	15,820	15,820
7	Annual Volume (10 ⁶ m ³)	448	448	448	448	448	448	448	448	448
8	Projected Revenues	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475

9 RATE BASE

10	Gross Fixed Assets	\$404,926	\$404,926	\$404,926	\$404,926	\$404,926	\$404,926	\$404,926	\$404,926	\$404,926
11	Accumulated Depreciation	\$200,681	\$210,237	\$219,794	\$229,350	\$238,906	\$248,462	\$258,019	\$267,575	\$277,131
12	Contributions	\$134,740	\$128,436	\$122,131	\$115,827	\$109,523	\$103,219	\$96,914	\$90,610	\$84,306
13	Working Capital Allowance	\$8,190	\$8,188	\$8,186	\$8,184	\$8,182	\$8,180	\$8,178	\$8,176	\$8,171
14	Rate Base	\$79,321	\$76,067	\$72,813	\$69,559	\$66,305	\$63,051	\$59,796	\$56,542	\$53,288

15 REVENUE DEFICIENCY CALCULATION

16										
17	Cost of Gas	\$174,858	\$174,858	\$174,858	\$174,858	\$174,858	\$174,858	\$174,858	\$174,858	\$174,858
18	Operating & Maintenance Expenses	\$800	\$800	\$800	\$800	\$800	\$800	\$800	\$800	\$800
19	Depreciation Expense	\$9,556	\$9,556	\$9,556	\$9,556	\$9,556	\$9,556	\$9,556	\$9,556	\$9,556
20	Amortization of Contributions	(6,304)	(6,304)	(6,304)	(6,304)	(6,304)	(6,304)	(6,304)	(6,304)	(6,304)
21	Municipal Tax & Corp. Cap. Tax	\$8,708	\$8,660	\$8,613	\$8,565	\$8,517	\$8,469	\$8,421	\$8,374	\$8,326
22	Income Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
23	Overall Return	6,093	5,843	5,593	5,343	5,093	4,843	4,593	4,343	4,093
24	Total Revenue Requirement	\$193,711	\$193,413	\$193,115	\$192,818	\$192,520	\$192,222	\$191,924	\$191,627	\$191,329
25	Projected Revenues	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475	\$198,475
26	Revenue Deficiency (Annual)	4,764	5,062	5,359	5,657	5,955	6,252	6,550	6,848	7,146
27	Revenue to Cost Ratio	102.5%	102.6%	102.6%	102.9%	103.1%	103.3%	103.4%	103.6%	103.7%