

MANITOBA) **Order No. 79/03**
)
THE PUBLIC UTILITIES BOARD ACT) **May 13, 2003**

Before: G. D. Forrest, Chair
M. Girouard, Member

CENTRA GAS MANITOBA INC.

**AN APPLICATION FOR AN INTERIM EX-PARTE ORDER OF THE
BOARD APPROVING A FINANCIAL FEASIBILITY TEST FOR THE
EXTENSION OF NATURAL GAS SERVICE TO ONE CUSTOMER
LOCATED WITHIN THE RURAL MUNICIPALITY OF WOODLANDS**

1.0 The Application

In Order 95/00, dated July 5, 2000, the Manitoba Public Utilities Board (“the Board”) approved a franchise agreement between the Rural Municipality of Woodlands (“Woodlands”) and Centra Gas Manitoba Inc. (“Centra”). In that Order, Centra was also directed to submit feasibility tests for Board approval for any future expansions within the franchise area, prior to commencing construction of the projects.

On April 29, 2003 Centra applied to the Board for interim ex-parte approval of a financial feasibility test for expansion of Centra’s distribution system to serve one customer within the Woodlands franchise area, on its own behalf and on behalf of Woodlands. Centra’s application is pursuant to the customer’s request for natural gas service received in the fall of 2002.

2.0 Customer Attachments, Volumes and Forecast Revenues

Phase one of the customer’s business, a vehicle wash facility, became operational in February 2003 and utilizes natural gas equipment, temporarily modified to accommodate propane until natural gas service is available. In Phase two, the customer plans to expand the business to include a gasoline bar and convenience store by 2006.

The phase one estimated annual consumption of 12,011 cubic metres was based on the equipment-input method. Phase two consumption was estimated to be 1,725 cubic metres, based on the square footage of the proposed facility. Centra calculated the annual revenues by applying the approved base sales rates for the Small General Class (“SGC”) approved in Order 11/03, dated January 30, 2003 to the estimated annual volumes. Centra states that there are no other potential customers along the route of the proposed main extension.

3.0 System Design and Capital Costs

Centra proposed to provide service to the customer by tapping into Centra's existing 60.3-mm polyethylene distribution pipe. A new 60.3-mm polyethylene pipe will be installed for a distance of approximately 1,050 metres in a south-easterly direction, within the railway right-of-way paralleling PTH #6. Appropriate service lines will be constructed to the customer's facilities as required. No additional upstream capital improvements are required because of this extension. Attachment 1.0 to this Order outlines the proposed location of the pipe extension.

Because the distribution main is a Class 2 development and is less than 10 kilometers in length, the project does not require environmental approval, pursuant to the Manitoba Environment Act. Project drawings will be submitted by Centra to appropriate authorities upon Board approval of this application.

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
- 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 \$18,323 to be spent in the first year.

4.0 Feasibility Test Methodology and Results

Centra used the SGC weighted average cost of gas rate that was approved by the Board in Order 11/03 to calculate project revenues.

Other feasibility test input data utilized by Centra were:

- Annual operating and maintenance costs of \$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 2002 mill rates, and estimated 2002 assessment rates.
- Corporate capital tax is calculated at a rate of 0.5% of net plant, prior to any customer contributions.
- Income Tax calculation assumes a combined Federal and Provincial corporate rate of 46.12%.
- Overall rate of return is 8.893% on a capital structure as last approved by the Board in Order 79/98, dated June 19, 1998.

Centra submitted that, in order to satisfy the Board approved expansion criteria that the R/C ratio of an extension project be no less than 1.0 by the fifth year, a contribution in the amount of \$13,828 is required from the customer. There are no other potential customers and Centra has already collected the customer's contribution. Centra's investment in this project is \$4,495. The feasibility test results indicate a positive 30-year NPV of \$76, and the R/C ratio does not fall below 1.0 after the fifth year. Centra will complete a "true-up" calculation at the end of the fifth year to determine if any refund of the customer contribution is required.

Attachment 2.0 details all 30-year NPV costs and revenues, and demonstrates that a customer contribution of \$13,828 is required.

5.0 Board Findings

The Board notes that this application has been filed in accordance with the requirements of Order 95/00, and is consistent with all other Board approved criteria. The results flowing from the feasibility test indicate that the R/C ratio in year five of the project is 1.0, which meets the 30-year NPV test criteria. Additionally, the

customer's contribution of \$13,828 as determined by the feasibility test has already been collected by Centra.

The Board has reviewed the system design and capital cost estimate, as well as the feasibility test cost and revenue inputs. The Board is satisfied, on a prima facie basis, that revenue, cost estimates and required customer contributions are reasonable, and that the Board's expansion criteria have been properly met. Due to the need to commence construction as soon as possible, the Board will approve the application on an interim ex-parte basis.

6.0 IT IS THEREFORE ORDERED THAT:

1. The feasibility test as submitted by Centra Gas Manitoba Inc. BE AND IS HEREBY APPROVED, on an interim ex-parte basis.
2. Centra Gas Manitoba submit for Board review, a true-up calculation related to this project by December 31, 2008.
3. That this interim Order remains in full effect until confirmed or otherwise by a subsequent Order of the Board.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
CHAIRMAN

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 79/03
issued by The Public Utilities Board

Acting Secretary