

EXECUTIVE SUMMARY

Union Gas Limited applied in December, 1993 under the *Municipal Franchises Act*, sections 8 and 9 for a certificate of public convenience and necessity to build facilities to supply gas to the Village of Erieau, and to supply that gas. Union also requested an order of the Board approving the terms and conditions of a franchise that would be, by by-law, granted to Union by the Village of Erieau. The Applications were given Board File Numbers E.B.C. 208 and E.B.A. 678 and were heard by the Board on March 8 to 10, 1994 together with three other applications.

On March 16, 1994 the Board provided an oral decision on two of the proposed projects; one was approved, but the other, the Erieau project, was not. The Board reaffirmed its earlier finding that an economic analysis is required when the Board considers an application for a certificate of public convenience and necessity under the *Municipal Franchises Act* as it is in an application under the *Ontario Energy Board Act* [12JF7-0:1] for leave to construct facilities.

The first stage in the economic analysis of a project is a comparison of the direct financial benefits from the project to the utility, compared to the cost of the project. Projects with a positive net present value of benefits versus costs, and a profitability index greater than 1.0, are self-financing from the point of view of the utility and require no subsidization from other utility customers or a financial contribution from the participating customers of the project. The Board may approve projects with profitability indices less than 1.0 if it finds such approval to be in the public interest, and that any subsidization of the project by other customers is not unreasonable.

Union's policy of the Company for expansion projects in new geographical areas that have a profitability index of less than 1.0 is to collect a monthly contribution from each new customer in the first five years of the project. The intent of the contribution is to improve the economics of the project to the point where any remaining revenue shortfall can be absorbed within the overall portfolio of system expansion projects being built in that Fiscal year. Inclusion of a project in the portfolio requires, under Union's policy, a project profitability index of not less than 0.7, and an index for the entire portfolio greater than 1.0.

There has not yet been an opportunity for the Board to test the appropriateness of the Company's new monthly customer contribution process in the proper forum - a main rate case. Two projects involving monthly customer contributions, Zurich and Grand Bend, have been approved by the Board. In each of these cases, the projects qualified for inclusion in Union's overall portfolio of projects in that they had, without customer contributions, profitability indices greater than 0.7. In both cases, the customer contributions raise the index much closer to 1.0.

The Erieau project, without customer contributions, was estimated by nion to have a profitability index of 0.58, which means that over a thirty year period, the project would return, on a net present value basis, only 58 percent of the project's cost. With the proposed \$15/month customer contribution for the first five years, the project's index improved to 0.71, just above the minimum level for inclusion in Union's overall portfolio of projects.

The Board found that it would not be in the public interest to approve the proposed Erineau project. The cumulative effect of proceeding with such uneconomic projects would be to place an undue burden on existing customers.

The Board encourages Union to more aggressively explore ways of improving the economics of the Erieau project by such means as reducing the construction costs, seeking contributions-in-aid-of-construction or seeking municipal grants.