

RURAL GAS PROGRAM MANUAL

Seventh Edition
October 2005



1. Authority

- 1.1. The Rural Utilities Division of Alberta Agriculture, Food and Rural Development administers the Rural Gas Program under the authority of the *Gas Distribution Act* and the *Alberta Agriculture, Food and Rural Development Grant Regulation*.
- 1.2. The terms used in this Manual are consistent with the terms used in The Act and Regulation.

2. Permit Applications

- 2.1. Notwithstanding any permit or approval issued by any other party, a distributor must not commence construction of a project in its rural gas utility unless it has received a construction permit from the Division.
- 2.2. Notwithstanding subsection 2.1, the Division may pre-authorize the construction of single primary service lines on an annual basis.
- 2.3. All permit applications should contain one copy of the following:
 - (a) a "Construction Application Data Summary Report",

- (b) a detailed cost estimate for the project based on the selected tenders for labour, materials, and equipment,
- (c) a distribution system layout plan reproduced from the distributor's as-built plans,
- (d) a customer information sheet detailing customer's name, location, service type, and design load.

3. Annual Submissions

- 3.1. Distributors must make a submission prior to March 31 of each calendar year covering all construction completed in the preceding year.
- 3.2. Submissions must contain the following information:
 - (a) electronic data containing utility files and infill files prepared in accordance with the Division's Technical Standards Manual and the Standards Manual for Digital Mapping. The utility file should contain all of the distributor's distribution system, and the infill file should contain only new construction completed during the preceding year,

- (b) relevant documents which include a listing of all construction activity for the year and statement indicating method of survey.

4. Tenders

- 4.1. Distributors must obtain tenders for materials or contractor services, unless this requirement is waived by the Division.
- 4.2. Invitational tenders must be obtained from at least two suppliers where the value of materials exceeds \$25,000. However, a quotation may be obtained from only one supplier if the materials are available from that supplier only.
- 4.3. Tenders must be obtained by invitation from at least three contractors where the value of contracting services exceeds \$25,000; and by public tender where the value of services exceeds \$100,000.
- 4.4. The Division may waive the requirement for tenders if it is satisfied that the use of the tendering process may not achieve lower costs for the materials or services to be obtained.
- 4.5. In providing tender information to the Division, distributors must disclose the details of any financial interests or any actual or potential conflict of interest involving their directors, staff or officers with respect to a supplier or contractor listed in the tender information.
- 4.6. If a distributor does not meet these requirements for tenders and if, in the Division's opinion, this results in additional capital costs being expended for a construction project, these additional costs may be deemed ineligible for grant support.

5. Capital Cost Reviews

- 5.1. The Division will determine the final system capital cost to be used to calculate total grant eligibility for capital projects by means of a year-end review. The review may include:
 - (a) an analysis of the distributor's records,
 - (b) a review of capital costs and grant specifications outlined in construction approvals,
 - (c) a comparison of:
 - (i) approved tenders to actual costs,
 - (ii) capital costs approved versus capital costs reported, and
 - (iii) capital projects approved versus construction progress reported,
 - (d) an evaluation as to reasonability of the capital costs reported.
- 5.2. Where the total amount of pipeline defined in a construction approval is not installed due to the deferral or cancellation of a project, the Division will reduce the approved estimate accordingly.
- 5.3. The Division may require a distributor to justify any capital costs in excess of approved estimates.
- 5.4. A distributor may be requested to submit year-end cost summaries with appropriate documentation covering all items in subsection 5.1 in lieu of a field review by the Division.

6. Cost Eligibility for Grants

- 6.1. Capital costs eligible for grant support may include the following:
 - (a) Construction materials, supplies and associated freight charges; but

excluding materials and supplies placed in inventory, resold or used for system operations,

- (b) Contractor services for installation of materials and supplies in the distributor's system, and/or self-construction costs as determined from the unit rate system,
- (c) Consulting costs, internal labour costs, mileage, and administrative costs. **Costs in this category will be determined at the flat rate of 20% of materials and contractor services, plus 10% of unit rate costs,**
- (d) Crop damages paid out to landowners that are reasonable and strictly related to crop losses due to pipeline construction,
- (e) Specialized services, such as easement search and registration, lien note registrations, and pipe quality assurance.

6.2. The eligible costs specified in subsection 6.1 may be restated by the following formula:

Approved Capital Costs =
(Material + Contractor Services) x 1.2 +
(Unit Rates x 1.1) + Crop Damages +
Special Charges.

7. Unit Rates for Construction

- 7.1. A distributor that undertakes all or a portion of pipeline construction with its own labour and equipment must determine the capital costs from a unit rate schedule agreed to between the distributor and the Division.
- 7.2. Upon completion of a self-construction program, the distributor must calculate the value of self-construction costs and submit it to the Division. Approval of this schedule will be part of the year-end

review. The Division reserves the right to conduct a field audit of costs.

8. Non-Grantable Capital Costs

8.1. Construction costs considered ineligible for grant support include the following:

- (a) service to non-grantable consumers as described in subsection 8.2 and 8.3,
- (b) the cost of materials or contracting services which do not meet the requirements for competitive tendering under Section 4,
- (c) replacement of pipelines due to inadequate depth of cover,
- (d) replacement or lowering of crossings or relocation of pipelines due to construction activity on highways, roads, railways, canals, watercourses, foreign pipelines or other utilities,
- (e) replacement of/or improvements to facilities that have deteriorated due to inadequate maintenance, and
- (f) replacement of CIL 219 pipe, PE 3306 and PVC
- (g) all urban projects, with "urban" being defined as:
 - (i) a village or summer village that is included in a franchise area approval, or
 - (ii) a group of properties that is registered under a lot, block, and plan description, unless
 - (iii) otherwise approved by the Division

8.2. A non-grantable consumer is a consumer who uses natural gas for non-domestic, non-farming, or standby purposes or a consumer located within an urban area. The non-grantable cost of service for this

type of consumer will be the actual cost of service or \$3,500 whichever is greater.

- 8.3. A special non-grantable consumer is a church or community hall that is supported by private contributions from the community. The non-grantable cost of service for this type of consumer will be the actual costs of service or \$3,500 whichever is less.

9. Grant Eligibility Criteria

9.1. The *Alberta Agriculture, Food and Development Grant Regulation* provides the authority for grant support towards construction costs for those natural gas distributors that have received a franchise area approval under the provisions of the *Gas Distribution Act*.

9.2. A distributor may receive grant support toward the capital cost of the portion of its overall distribution system plant which is intended to serve farm or domestic consumers within the prescribed boundary of a franchise area approval. Any distribution system plant which is installed for any other purpose is ineligible for grant support.

9.3. Notwithstanding a distributor's right to establish contract prices for new consumers within its franchise area, the grants specified in this manual are based on the following principles:

- (a) that the contract prices for rural and urban consumers must be the same for all consumers within that class in any given year, and
- (b) that the aggregate of the contract price and the grant for which the distributor is eligible should not exceed the average capital costs associated with providing service to new consumers in each class.

9.4. Where a distributor does not establish a common contract price for each class of

consumer, the Division may refuse to provide any or all of the grant assistance for which the distributor would otherwise be eligible.

9.5. Where the contract price established by a distributor for any class of consumer does not comply with the principles outlined in subsection 9.3(b) the distributor may be required to:

- (a) refund any excess funds to the affected consumers, or
- (b) accept a reduction in its grant eligibility equivalent to the amount of excess funds generated by its contract prices.

10. Grants – General

10.1. Where:

- (a) a distributor incurs capital costs for the development of its rural gas utility,
- (b) the distributor requests grant support for the capital costs, and
- (c) the capital costs are eligible for grant support as specified in a construction approval

the amount of grant available to the distributor will be as outlined in sections 10.2, and 11.

10.2. Projects eligible for grant assistance include the following:

- (a) installation of new domestic, grain dryer, irrigation, or other agricultural services,
- (b) looping and other system improvements to ensure security of supply to consumers,
- (c) studies related to the design, technical standards, construction, operation or safety of rural gas utilities,

- (d) installation of new gas sources,
- (e) reconnecting distribution systems to new gas sources due to failure or inadequacy of the existing source.

11. Grants for Rural Services

11.1. In this section:

- (a) rural capital cost” means the total capital cost in any year less the non-grantable capital costs specified in section 8,
- (b) capital cost per rural consumer” means the quotient obtained by dividing the rural capital cost by the number of rural consumers in any year

11.2. The number of rural consumers will be based on the aggregate of the following:

- (a) the number of farms and rural residences served with natural gas,
- (b) the number of additional residences on a farm or rural parcel served with natural gas, where those residences are separately metered by the distributor,
- (c) an equivalent of five (5) rural consumers where a communal farm is provided with natural gas from a single consumer meter, and
- (d) the number of services for irrigation, grain drying, or other agricultural purposes.

11.3. The amount of grant assistance for rural capital costs may be calculated from the following table:

Capital Cost Per Rural Consumer	Sharing of Capital Costs
Up to \$3,500	100% distributor
Over \$3.500 to \$20,000	25% distributor 75% grant

11.4. Notwithstanding subsection 11.3, the maximum capital cost for service to an individual rural consumer for grant eligibility purposes is \$20,000, and any other costs deemed ineligible for grant support by the Division

12. Grant Processing

12.1. The Division may generate and process with a construction approval, a progress grant of 50 percent of estimated grants specified in the approval

12.2. The balance of any additional grant eligibility may be paid to a distributor where:

- (a) the distributor has made its annual submission as specified under section 3,
- (b) an independent audit has been completed and a financial statement covering that audit has been submitted to the Division,
- (c) utility rights-of-way have been acquired and registered, and

any other requirements of the Division have been met.

12.3. The Division may hold back an appropriate portion of grant funds where the distributor does not comply with the requirements of subsection 12.2 and, where the distributor does not comply with these requirements within one year, the Division may deem the amount held back to be forfeited.