

M A N I T O B A) **Order No. 29/14**
)
THE PUBLIC UTILITIES BOARD ACT) **March 14, 2014**

Before: Régis Gosselin, B ès Arts, MBA, CGA, Chair
Marilyn Kapitany, B.Sc., Hon., M.Sc., Member
Larry Soldier, Member

**APPLICATION FOR THE APPROVAL OF THE SALE
OF THE ASSETS OF SWAN VALLEY GAS CORP.
TO CENTRA GAS MANITOBA INC.**

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EXECUTIVE SUMMARY

By this Order, the Public Utilities Board of Manitoba (“Board”) approves an application by Swan Valley Gas Corporation (“Swan Valley Gas”) to sell, and an application by Centra Gas Manitoba Inc. (“Centra”) to purchase, the natural gas distribution system assets of Swan Valley Gas, subject to certain conditions. The Board denies Centra’s application to recover the purchase price of the assets from the gas customers in the Swan Valley Gas service territory through a rate rider.

The sale of the assets is approved on the following conditions:

1. That the purchase price be amended to \$1, which eliminates the \$50,000 annual payments over four years from Centra to Swan Valley Gas.
2. That the emergency services agreement between SaskEnergy Incorporated (“SaskEnergy”) and Centra, whereby SaskEnergy provides emergency response services to the Swan Valley Gas service territory, be extended to an initial five year term from the proposed one year term.
3. That Centra provide to the Board a plan or strategy detailing how Centra will improve the financial viability of the distribution system in the Swan Valley Gas area.
4. That Swan Valley Gas or Centra file duly executed Council resolutions from the Rural Municipalities of Swan River and Minitonas, the Towns of Swan River and Minitonas, and the Village of Benito with the Board which confirm that these municipalities consent to the assignment of their franchise agreements from Swan Valley Gas to Centra.

Furthermore, Centra is to provide to the Board a plan detailing how Centra will improve the financial viability and reduce or eliminate the ongoing revenue deficiency of the Swan Valley Gas distribution system.

IT IS ORDERED:

1. That Swan Valley Gas' Application to sell its assets to Centra in accordance with the Asset Purchase Agreement **BE AND IS HEREBY APPROVED** subject to the following Conditions:
 - (a) That the total asset sale price does not exceed the sum of \$1.00; and
 - (b) That the initial term of the Emergency Services Agreement between Centra and SaskEnergy be extended to five years;
2. Centra's Application to acquire the assets of Swan Valley Gas in accordance with the Asset Purchase Agreement **BE AND IS HEREBY APPROVED subject to the following Conditions:**
 - (a) That the total purchase price does not exceed the sum of \$1.00; and
 - (b) That the initial term of the Emergency Services Agreement between Centra and SaskEnergy be extended to five years;
3. If Centra and Swan Valley Gas elect to proceed with the contemplated purchase and sale of the assets of Swan Valley Gas on the conditions set out in sections (1) and (2) above, Centra is to provide to the Board with a plan or strategy by September 30, 2014 that details how Centra will improve the financial viability and reduce or eliminate the ongoing revenue deficiency of the Swan Valley Gas distribution system.
4. Swan Valley Gas' Application to assign its franchise agreements with the Rural Municipality of Swan River, the Rural Municipality of Minitonas, the Town of Swan River, the Town of Minitonas, and the Village of Benito to Centra **BE AND IS HEREBY APPROVED subject to the Condition** that Swan Valley Gas file duly executed Council resolutions from these municipalities evidencing that these municipalities consent to the assignment of their franchise agreements;

5. Centra's Application to assign the franchise agreements between Swan Valley Gas and the Rural Municipality of Swan River, the Rural Municipality of Minitonas, the Town of Swan River, the Town of Minitonas, and the Village of Benito to Centra **BE AND IS HEREBY APPROVED subject to the Condition** that the municipal authorities pass Resolutions authorizing the assignment of the franchises to Centra and that Centra file such resolutions with the Board unless they are filed by Swan Valley Gas pursuant to Directive 4 of this Order;
6. Centra's Application to charge the customers in the Swan Valley Gas service territory a rate rider of \$0.0304/m³ for a period of 48 months **BE AND IS HEREBY DENIED**;
7. Swan Valley Gas' proposed disposition of its accumulated Purchased Gas Variance Account ("PGVA") **BE AND IS HEREBY AMENDED** as follows:
 - (a) The unit PGVA refund is to be calculated using the total volumes over which it accumulated since November 2011, including those of customers who have ceased service between November 2011 and the date of this Order.
 - (b) The PGVA is to be refunded as proposed by Swan Valley Gas, except that the portion of the PGVA refund attributable to customer accounts that were closed since November 2011 is to be set aside and dealt with as described in subsection (c) below.
 - (c) Former customers who present adequate evidence on or before February 28, 2017 that they were Swan Valley Gas customers during the period November 2011 to the closing of the transaction shall be eligible to receive their pro rata share of the PGVA refund. Funds that are unclaimed as of March 1, 2017 are to be transferred to Centra for inclusion in Centra's PGVAs;
8. If Centra and Swan Valley Gas elect to proceed with the contemplated purchase and sale of the assets of Swan Valley Gas on the conditions set out in sections (1) and (2) above, Swan Valley Gas is to include a bill insert in its final bills to current customers describing the PGVA refund and the mechanism by which former customers can claim their share of the PGVA refund; and

9. If Centra and Swan Valley Gas elect not to proceed with the contemplated purchase and sale of the assets of Swan Valley Gas on the conditions set out in sections (1) and (2) above, the Board will address the disposition of the Purchased Gas Variance Account at a future date.

1.0 CENTRA'S AND SWAN VALLEY GAS' APPLICATIONS

Background

In March 2000, Swan Valley Gas applied to the Board to provide gas service to the Rural Municipalities of Swan River and Minitonas, the Town of Swan River, the Town of Minitonas, and the Village of Benito. The Board approved Swan Valley Gas' application by Order 93/00, and gave Swan Valley Gas authority to operate in December 2000.

Swan Valley Gas provides service to residential, commercial, and institutional (hospital, schools) customers in Benito, Swan River, and Minitonas, and currently (as of the filing of the applications) serves 138 residential, 62 commercial, 35 general service, and 3 institutional customers.

The anchor customer for this expansion was Louisiana-Pacific Canada Ltd. ("Louisiana-Pacific") which operates an oriented strand board manufacturing plant in Minitonas. Louisiana-Pacific received approval from Manitoba Conservation in 2008 to cease operation of its gas-fueled regenerative thermal oxidizers, whose purpose was to reduce particulate emissions from combustion of wood waste and by-products. Consequently, Louisiana-Pacific ceased gas service from Swan Valley Gas. Louisiana-Pacific continued to pay a stand-by demand charge to Swan Valley Gas until mid-2012. As a result of Louisiana-Pacific ceasing service, Swan Valley Gas' revenues dropped by 70% and Swan Valley Gas experienced financial difficulties.

Swan Valley Gas' Application

Since inception, Swan Valley Gas attempted to expand its distribution system to attach more customers but fell short of its original forecasts of number of customers. This, in addition to Swan Valley Gas' loss of its largest customer, Louisiana-Pacific, led Swan Valley Gas to the conclusion that it is no longer a sustainable business.

Swan Valley Gas entered into negotiations with Centra in 2012 for the sale of Swan Valley Gas' assets to Centra. On July 31, 2013, Swan Valley Gas entered into an asset purchase agreement (the "Agreement") pursuant to which Centra would purchase Swan Valley Gas' assets, including its franchise agreements with Manitoba municipalities, for a fee of \$1 plus four equal annual installments of \$50,000, for a total purchase price of \$200,001. The Agreement is conditional on PUB approval of the transaction.

On November 1, 2013, Swan Valley Gas filed an application with the Board requesting approval to sell the assets of Swan Valley Gas to Centra and to approve the assignment of Swan Valley Gas' franchises to Centra.

Centra's Application

On November 4, 2013, Centra applied to the Board for:

1. Approval of the merger and consolidation of Swan Valley Gas' assets with the assets of Centra;
2. Approval of an acquisition surcharge of \$0.0304 per cubic metre to be added to the bills of customers in the Swan Valley Gas territory for a period of 48 months; and
3. Approval of the assignment of the franchise agreements between Swan Valley Gas and the RMs of Swan River and Minitonas, the Town of Swan River, the Town of Minitonas, and the Village of Benito to Centra.

Application Process

The Applications by Swan Valley Gas and Centra were addressed through a paper-based process with no oral hearing. The Consumer's Association of Canada (Manitoba) Inc. ("CAC") was the sole intervener in this proceeding.

The Board considered evidence consisting of documentary filings by Swan Valley Gas, Centra, and CAC. The documentary evidence is available on the Board's website for public review.

2.0 PROPOSED SALE OF ASSETS

Overview

Swan Valley Gas proposed the sale of its assets to Centra because it was of the view that it could no longer continue to operate on a sustainable basis, and that Centra, because of its larger size, could continue to provide safe, secure, and reliable service to Swan Valley Gas' customers at lower rates than Swan Valley Gas would be able to offer.

The physical assets to be transferred pursuant to the Agreement between the parties include the transmission main from Benito to Minitonas, the high pressure regulating stations in each town, the polyethylene distribution mains, the service lines to each home or business, and the meters. As set out above, Centra would also receive an assignment of Swan Valley Gas' franchise agreements.

The agreed purchase price is \$1 upon closing of the sale, plus four annual payments from Centra to Swan Valley Gas of \$50,000. Upon conclusion of the sale of assets and any post-closing requirements and deliverables, Swan Valley Gas would be wound up. According to Centra, the purchase price was agreed upon, in part, because \$50,000 represented the approximate annual net income for Swan Valley Gas, meaning the assets are being sold for four years' of net income.

The acquisition surcharge of \$0.0304 per cubic metre was calculated in order to recover the purchase price from customers in the Swan Valley Gas territory over four years. Centra forecasts that customers in the Swan Valley Gas territory will consume 1,664,000 cubic metres of gas annually. The surcharge was determined on that basis.

The net book value of the assets recorded by Swan Valley Gas is \$1.4 million. For accounting purposes, Centra proposes to record the assets at the agreed-upon fair value of \$200,000, allocated on a pro rata basis based upon the net book value of the assets acquired.

CAC's Position

CAC is of the view that the proposed transaction provides no benefit to existing Centra ratepayers, and, to the contrary, will have a negative impact on them. On that basis, CAC submits that the proposed transaction as filed should be denied by the Board. According to CAC, the beneficiaries of the transaction are SaskEnergy, the parent company of Swan Valley Gas, which will divest itself of the financial difficulties experienced by Swan Valley Gas, and the customers in the Swan Valley Gas territory, who will experience lower rates under Centra ownership.

CAC argues that SaskEnergy, Swan Valley Gas' parent, took a known risk in extending gas service to the Swan Valley area, and it should be SaskEnergy ratepayers, not Centra ratepayers, that should bear the costs.

CAC also submits that the Swan Valley Gas system is not interconnected to a Trans-Canada Pipeline Ltd. take-off point and instead requires gas to be purchased from SaskEnergy and delivered through the Many Islands Pipeline Ltd. system, over whose charges SaskEnergy has control and whose rates are regulated by the National Energy Board, not the Board. According to CAC, the risk that Many Islands Pipeline will apply for higher rates will fall to Centra customers.

CAC recommended the Board reject Centra's and Swan Valley Gas' applications, and either:

1. Allow gas service to Swan Valley Gas customers to cease;
2. Require Swan Valley Gas to continue to provide service under the terms of its Board-approved franchise agreements with municipalities in its service area until expiration of the franchise agreements in 2030; or
3. Require Swan Valley Gas and Centra to re-submit the application with the revenue deficiency reduced, by reducing the purchase price, extending the duration of the acquisition surcharge for an additional year, requiring SaskEnergy to pay the Many Islands Pipeline charges, negotiating a tax holiday with the communities for a period of 15 years, or a combination of the foregoing.

Swan Valley Gas' Position

Swan Valley Gas objected to CAC's characterization of the sale. Swan Valley Gas stated that it has made considerable efforts through the years, supported by the PUB, to continue to provide gas service to Swan Valley Gas customers in the face of challenges such as the loss of the Louisiana-Pacific load. The benefits of this transaction will accrue to the gas customers in the Swan Valley Gas service territory, including continued gas service, lower bills, and additional customer service programs.

Centra's Position

Centra objected to CAC's recommendation that the purchase price, which was agreed upon by two arms-length parties, be altered by the Board. Centra views the impact on its existing ratepayers as modest.

Board Findings

The Board approves the sale of Swan Valley Gas' assets to Centra, and Centra's acquisition of the assets, subject to the following conditions:

1. That the purchase price be amended to \$1, which eliminates the \$50,000 annual payments over four years from Centra to SaskEnergy, the parent company of Swan Valley Gas; and
2. That the emergency services agreement between SaskEnergy Incorporated ("SaskEnergy") and Centra, whereby SaskEnergy provides emergency response services to the Swan Valley Gas service territory, be extended to an initial five-year term from the proposed one year term.

The Board is cognizant of the significant benefits of this transaction to the gas customers in the Swan Valley Gas territory, principally the continuation of secure and reliable gas service that would otherwise be at risk. If Centra takes over the assets of Swan Valley Gas, customers in the Swan Valley service territory will benefit from lower rates and access to additional customer service programs, such as Manitoba Hydro's Power Smart programs. Residents, businesses, and institutions count on the reliable supply of gas to heat their homes and buildings. The Board views it to be in the public interest to continue the secure and reliable supply of gas to these customers. The sale of the Swan Valley Gas assets to Centra accomplishes this objective.

Nonetheless, the Board is of the opinion that there are significant financial challenges in the operation of this distribution system due to the low number of customer connections, resulting in a forecasted revenue deficiency each and every year. That revenue deficiency must be funded by Centra's existing ratepayers, who do not receive a benefit from this transaction.

At the current agreed upon terms the purchase price is not prudent. In the Board's view it is inappropriate for Swan Valley Gas to receive a purchase price greater than \$1 for these assets, considering the negative net present value of the forecasted revenue deficiencies. In the Board's view, the net book value of Swan Valley Gas' assets is neither determinative nor indicative of what the purchase price should be, as these assets cannot readily be used for purposes other than delivering gas in the existing service area. Accordingly, the Board's approval of the sale of the assets to Centra is conditional on the renegotiation of the Agreement such that the purchase price is \$1, without the additional recovery of \$200,000 over four years.

3.0 ASSIGNMENT OF FRANCHISE AGREEMENTS

Overview

Swan Valley Gas was granted the exclusive franchises to distribute gas in the Rural Municipality of Swan River, the Rural Municipality of Minitonas, the Town of Swan River, the Town of Minitonas, and the Village of Benito in 2000. These franchise agreements were conditionally approved by the Board in Order 93/00 (with the conditions since having been satisfied) and are set to expire in 2030.

Prior to filing its application to sell its assets to Centra, Swan Valley Gas obtained Council resolutions from these communities agreeing to unconditionally assign the franchises to Manitoba Hydro, effective the date that the Board approves the assignments. Swan Valley Gas subsequently advised that this was in error, as the resolutions should have referenced Centra rather than Manitoba Hydro. The parties advised that they will obtain revised resolutions.

Centra stated that it will offer the franchisors the opportunity but not the obligation to switch from their existing agreements to the Generic Franchise Agreement in the form the Board last approved by Order 159/11.

Board Findings

Swan Valley Gas obtained consents in the form of Council resolutions from the municipal authorities to assign the franchises to distribute gas from Swan Valley Gas to Manitoba Hydro. Although Centra is wholly owned by Manitoba Hydro, Centra is the legal entity that holds franchises to distribute gas in Manitoba. The Board approves the assignment of the franchises on the condition that duly executed Council resolutions from the affected municipalities be filed with the Board that evidence the municipalities' intention to transfer their franchise agreements to Centra.

4.0 ONGOING REVENUE DEFICIENCY

Overview

Centra stated that the purchase of the Swan Valley Gas assets results in an ongoing revenue deficiency ranging from \$66,000 to \$291,000 per year over the next ten years. In order to achieve the same level of retained earnings after 10 years that it would achieve without the contemplated transaction, Centra requires additional revenue of 0.008% of its total revenue requirement annually, which will be spread across all Centra ratepayers. In Centra's view, this is not a material impact on existing Centra ratepayers.

A 50-year net present value evaluation was used by the Board to evaluate the last major distribution asset purchase by Centra, namely Centra's purchase of the Gladstone Austin Natural Gas Co-operative ("GANG") in 2004. CAC highlighted that the net present value of the annual revenue requirements over a 50 year period is negative \$2.4 million¹. CAC also noted Centra's internal analysis that the acquisition results in a net present value revenue deficiency of \$2.2 million².

¹ Information Request CAC/Centra 4

² Information Request PUB/Centra 21

CAC argued that Centra should not use its financial forecasting model to evaluate the impacts of the proposed acquisition. Centra's model incorporates the revenues and costs of its entire operation, so the impacts of any individual expansion or acquisition on the overall operations will always be immaterial. Instead, CAC argued that the feasibility of acquiring Swan Valley Gas' assets should be evaluated using the Board's approved feasibility test, which calculates the net present value of revenue sufficiency and deficiency over 30 years. Alternatively, the 50-year net present value assessment used by the Board to evaluate Centra's purchase of GANG assets should be used.

Board Findings

The Board will not require the proposed transaction to be evaluated using the Board's 30 year net present value feasibility test that applies to new main extensions. The Board agrees with Centra that the acquisition of an existing gas distribution system, such as the Swan Valley Gas system, is distinct from constructing assets to serve new customers.

The Board notes that the acquisition of the GANG assets also resulted in a negative impact to Centra's ratepayers, which the Board deemed to be negligible. While the impact of the Swan Valley Gas asset purchase will have a greater negative impact on Centra's ratepayers than the GANG acquisition, the Board is of the view that it is not a material impact at approximately \$0.66 per customer per year on average.

Nonetheless, it is apparent to the Board that a review of the operations in the Swan Valley Gas service area is required. The Board will therefore direct Centra to provide the Board with a plan that details Centra's strategy to improve the financial viability and reduce or eliminate the ongoing revenue deficiency of the Swan Valley Gas distribution system by September 30, 2014. Such a plan may include steps to reduce operating costs, plans to increase customer attachments, and marketing efforts aimed at convincing homeowners and businesses to convert electric space and water heating systems to gas. The marketing effort may also include education about the benefits of gas over electric space and water heating. Converting residences and businesses to gas from electric heat has benefits for the customer as well as for Manitoba Hydro, as

articulated in Manitoba Hydro's Fuel Switching Report³ filed with Centra's 2013/14 General Rate Application.

Centra proposes to abandon inactive service lines as they present a safety risk. The Board notes that Centra expects to incur a cost of approximately \$384,000 to abandon 268 service lines, or approximately \$1,400 each. Centra and Manitoba Hydro would benefit if home owners and businesses that already have an inactive service line to their home or business agree to take service, as this will reduce the number of abandonments. As part of Centra's plan to reduce the revenue deficiency, the Board encourages Centra to consider offering incentives to switch to gas space and water heating, recognizing the cost Centra would incur to abandon these service lines.

5.0 GAS SUPPLY AND COSTS

Overview

Currently, Swan Valley Gas obtains its gas supplies from its parent company, SaskEnergy, through the TransGas and Many Islands Pipeline systems that bring gas from Saskatchewan to the eastern terminus of Swan Valley Gas' system in Benito.

SaskEnergy has agreed to continue to provide gas supplies to Centra under contract, including procurement, nomination, and balancing of daily supplies, for a fee of \$0.065 per gigajoule. Centra forecasts that the Swan Valley Gas customers will consume approximately 61,500 gigajoules of gas each year, which results in a management fee paid to SaskEnergy of approximately \$4,000 each year.

SaskEnergy will contract for sufficient capacity on the TransGas and Many Islands Pipeline systems to serve the customers in the Swan Valley Gas territory. The 523 gigajoules of daily capacity are forecasted to cost \$89,000 annually, based on current TransGas and Many Islands Pipeline rates. TransGas rates are set by the Saskatchewan government Cabinet, while Many Islands Pipeline rates are set by the National Energy Board. SaskEnergy will pass these costs to Centra without mark-up.

³ 2013/14 Centra General Rate Application Tab 15 Appendix 15.4

Centra intends to include the SaskEnergy gas supply costs in its Primary Gas supply costs. This means that the supply costs will flow into the existing Primary Gas Purchased Gas Variance Account. Centra does not intend to modify the methodology that forecasts the Primary Gas rate, since the influence of the SaskEnergy supply will be immaterial due to the small proportion of gas volumes compared to Centra's other Western Canadian supplies.

Likewise, the pipeline transportation charges will be included in Centra's overall upstream (of Centra) transportation costs, with the costs flowing into the existing Transportation Purchased Gas Variance Account.

CAC submits that the Many Islands Pipeline charges of \$57,038 per year, or nearly \$1 per gigajoule, are not feasible and that this cost does not match Centra's existing upstream transportation costs. Likewise, the gas supply costs exceed Centra's current gas supply costs by 56 cents per gigajoule. CAC argued that because the costs do not match Centra's existing costs, the supply and transportation costs should not be rolled into the existing Primary Gas and Transportation Purchased Gas Variance Accounts.

CAC further notes that Centra's customers will be exposed to potentially increased costs related to the Many Islands Pipeline if the National Energy Board decides to raise the tolls on this pipeline.

Board Findings

The Board reviewed the Gas Management Agreement filed in confidence. The Board will address the specific cost consequences of these gas supply and transportation arrangements at a future General Rate Application or a Cost of Gas proceeding. The Board is of the view that the five year term of the agreement is appropriate.

With regards to CAC's concerns, the forecasted transportation costs of approximately \$1.45 per gigajoule (for both TransGas and Many Islands Pipeline) are higher than the Transportation base rates charged by Centra to its existing customers of \$1.03 to \$1.05 per gigajoule. Centra's Transportation rates include pipeline transportation costs from Empress, Alberta plus storage and pipeline costs in the U.S., none of which is accessed

by customers in the Swan Valley Gas area. The transportation costs to the Swan Valley Gas territory and to Centra's existing territory are of a similar order of magnitude and therefore the Board, at the present time, agrees that they may be rolled into Centra's Purchased Gas Variance Accounts.

The Board also notes that Centra's existing customers are exposed and have experienced increased costs related to TransCanada Pipeline's Mainline for pipeline transportation from Alberta, which is also regulated by the National Energy Board. Accordingly, the Board does not see materially greater risk with the Many Islands Pipeline compared to the Mainline. In fact, the recent toll variability on the Mainline suggests that the Many Islands Pipeline price risk is less than price risk for the TransCanada Pipeline.

6.0 RATES AND CUSTOMER IMPACTS

Overview

Centra intends to charge customers in the Swan Valley Gas territory the same rates as it charges its other customers, depending on the appropriate rate class for each customer. The exception to this is that Centra proposes to charge a temporary rate rider of \$0.0304 per cubic metre, in addition to the approved rates, which is to be applied to the rates charged to the customers in the Swan Valley Gas territory for a period of 48 months. This rate rider is forecasted to recover from the former Swan Valley Gas customers approximately \$50,000 per year for four years, which are the proposed payments from Centra to Swan Valley Gas to pay for the acquisition of the assets.

At the time the Application was prepared, charging Centra's sales rates along with the rate rider would have resulted in lower rates and bills for all customers. However, Centra has since filed for and received approval of an amended Primary Gas rate which is 27% higher than the Primary Gas rate used in the preparation of this Application. As a result, if Centra were to charge the former Swan Valley Gas customers its current rates with the acquisition rate rider, customers in the Large General Service class, which

includes customers in Swan Valley Gas' General Service and Institutional classes, would experience bill increases of up to 9.1%.

The proposed bill impacts based on existing Swan Valley Gas rates and Centra's current rates with the rate rider are as follows:

| Class | Annual Usage m ³ | Swan Valley Gas Annual Bill | Centra Annual Bill | Annual Bill Impact (\$) | Bill Impact (%) |
|----------------------------|-----------------------------|-----------------------------|--------------------|-------------------------|-----------------|
| SGS (Res) | | | | | |
| Low | 1,000 | \$643 | \$474 | -\$169 | -26.2% |
| Average | 1,757 | \$948 | \$706 | -\$242 | -25.5% |
| High | 4,000 | \$1,852 | \$1,394 | -\$458 | -24.7% |
| SGS (Commercial) | | | | | |
| Low | 3,000 | \$1,311 | \$1,087 | -\$224 | -17.1% |
| Average | 5,453 | \$2,040 | \$1,839 | -\$201 | -9.9% |
| High | 8,000 | \$2,796 | \$2,619 | -\$177 | -6.3% |
| LGS (GS) | | | | | |
| Low | 20,000 | \$5,614 | \$5,989 | \$375 | 6.7% |
| Average | 23,764 | \$6,593 | \$6,942 | \$349 | 5.3% |
| High | 70,000 | \$18,614 | \$18,650 | \$36 | 0.2% |
| LGS (Institutional) | | | | | |
| Low | 100,000 | \$24,057 | \$26,247 | \$2,190 | 9.1% |
| Average | 167,575 | \$40,072 | \$43,359 | \$3,287 | 8.2% |
| High | 200,000 | \$47,757 | \$51,570 | \$3,813 | 8.0% |

Board Findings

The Board agrees with Centra's plan to charge the same sales rates that apply to Centra's existing customers to customers in the Swan Valley Gas service territory. Those sales rates were approved by the Board by Order 6/14 and are subject to amendment from time to time.

The Board denies the proposed rate rider to recover the acquisition price of \$200,000, since the Board's approval of the acquisition is conditional on the renegotiation of the purchase price to \$1. As a result, should the two utilities elect to close the transaction upon the conditions required by the Board, customers in the Swan Valley Gas territory will pay the same rates as Centra's existing customers.

Accordingly, the following table shows the bill impacts for low, average, and high consumption levels within each class compared to maintaining the existing Swan Valley Gas rates:

| Class | Annual Usage m ³ | Swan Valley Gas Annual Bill | Centra Annual Bill | Annual Bill Impact (\$) | Bill Impact (%) |
|----------------------------|-----------------------------|-----------------------------|--------------------|-------------------------|-----------------|
| SGS (Res) | | | | | |
| Low | 1,000 | \$643 | \$444 | -\$199 | -30.9% |
| Average | 1,757 | \$948 | \$653 | -\$295 | -31.1% |
| High | 4,000 | \$1,852 | \$1,272 | -\$580 | -31.3% |
| SGS (Commercial) | | | | | |
| Low | 3,000 | \$1,311 | \$996 | -\$315 | -24.0% |
| Average | 5,453 | \$2,040 | \$1,673 | -\$367 | -18.0% |
| High | 8,000 | \$2,796 | \$2,376 | -\$420 | -15.0% |
| LGS (GS) | | | | | |
| Low | 20,000 | \$5,614 | \$5,381 | -\$233 | -4.2% |
| Average | 23,764 | \$6,593 | \$6,219 | -\$374 | -5.7% |
| High | 70,000 | \$18,614 | \$16,522 | -\$2,092 | -11.2% |
| LGS (Institutional) | | | | | |
| Low | 100,000 | \$24,057 | \$23,207 | -\$850 | -3.5% |
| Average | 167,575 | \$40,072 | \$38,265 | -\$1,807 | -4.5% |
| High | 200,000 | \$47,757 | \$45,490 | -\$2,267 | -4.7% |

7.0 EMERGENCY SERVICES AGREEMENT

Overview

Currently, SaskEnergy provides emergency response services to Swan Valley Gas and its customers from operations centres in Canora and Kamsack, Saskatchewan. Emergency response services include responding to regulator station over- or under-pressure situations, blowing gas incidents, leaks, odour calls, carbon monoxide incidents, and other incidents that may impact the safety of the public.

Centra intends to continue to provide safe and reliable service to the customers of Swan Valley Gas. While Manitoba Hydro operates a customer service centre in Swan River, Centra does not maintain any technical staff with gas expertise in this office. The nearest Manitoba Hydro operations centres with gas expertise are in Dauphin and Russell.

To provide emergency services to the Swan Valley Gas customers, SaskEnergy and Centra executed an Emergency Services Agreement whereby SaskEnergy will continue to provide emergency response services to the Swan Valley Gas service territory. In exchange, Centra will pay SaskEnergy an annual retainer of \$1,000 and cover any costs and expenses incurred by SaskEnergy in responding to the incidents.

The proposed initial term of the agreement is one year and will continue for successive one year terms unless notice of termination is provided by Swan Valley Gas or Centra.

Board Findings

The Board approves the proposed acquisition of the Swan Valley Gas assets by Centra subject to the condition that SaskEnergy and Centra extend the initial term of the Emergency Services Agreement to five years.

The Board has permitted Swan Valley Gas to provide emergency response service to its customers from SaskEnergy's Kamsack and Canora operations centres for several years. As the intention is for Centra to continue these arrangements, the Board supports this arrangement.

Centra would incur additional costs if SaskEnergy were to terminate or fail to renew the Agreement, because Centra would locate a gas service technician in the Swan Valley area. In order for Centra to have additional near-term cost certainty, the Board's approval of the acquisition is contingent upon SaskEnergy and Centra extending the initial term of the Emergency Services Agreement to five years.

8.0 FINAL BILLS AND REFUND OF PGVA

Overview

Like Centra, Swan Valley Gas operates a Purchased Gas Variance Account (“PGVA”) that records the differences between forecasted gas costs, which are built into the sales rates and determine revenues, and the actual gas costs. Swan Valley Gas’ PGVA includes the cost of the gas supply at the TransGas Energy Pool, the pipeline charges to transport gas to Swan Valley Gas on the TransGas and Many Islands Pipeline systems, a gas management fee payable to SaskEnergy, and the impacts on gas prices related to SaskEnergy’s price risk management (hedging) program.

Swan Valley Gas forecasts that the PGVA balance owing to customers as of February 28, 2014 will be \$167,742. Swan Valley Gas proposes to refund this amount to its customers as a credit on each customer’s final bill. If the credit more than offsets the final bill amount, Swan Valley Gas intends to issue a cheque for the difference.

The refund will be calculated based on the actual consumption of each customer since November 1, 2011, multiplied by the unit refund amount. At the present time, the unit refund is forecasted to be \$0.0352 per cubic metre, although the exact unit refund will be determined by dividing the PGVA balance by the total system consumption since November 1, 2011, once Swan Valley Gas determines these amounts at the closing of the transaction. Swan Valley Gas proposes that customers that terminated gas service prior to the closing of the transaction will not be eligible for refunds, as Swan Valley Gas has no way to locate and inform former customers.

Board Findings

The Board approves the proposed refund of Swan Valley Gas’ accumulated Purchased Gas Variance Account (“PGVA”) with amendments. The Board is of the view that it is unfair for customers that ceased service prior to the closing of the asset sale to be excluded from the PGVA refund, and seeks to alleviate the likely dissatisfaction on the part of former customers who are not entitled to a refund.

The unit PGVA refund is to be calculated using the total volumes over which it accumulated, including those of customers who have ceased service between November 1, 2011 and the closing of the asset sale. The PGVA is to be refunded as proposed by Swan Valley Gas, except the portion of the PGVA refund attributable to customer accounts that were closed since November 2011 is to be set aside. Persons who were Swan Valley Gas customers during the period November 2011 to the closing of the transaction are eligible to receive their pro rata share of the PGVA refund. Funds that are unclaimed as of February 28, 2017 are to be transferred to Centra for inclusion in Centra's PGVAs.

Recognizing the inherent difficulties in tracing former customers, the Board is placing the onus on former customers to contact Swan Valley Gas or SaskEnergy with evidence of their status as customers between November 2011 and the closing of the transaction. The Board expects that customers that have moved within the Swan Valley Gas service territory will avail themselves of this opportunity. Swan Valley Gas is to include a bill insert in its final bills to current customers describing the PGVA refund and the mechanism by which former customers can claim their share of the PGVA refund.

9.0 SERVICE OFFERINGS

Overview

Centra intends to offer customers in the Swan Valley Gas territory the same services as its other customers, under the same terms and conditions of service. Additional services offered by Centra that were not available from Swan Valley Gas include:

- Power Smart programs to assist customers with energy efficiency improvements;
- The ability to contract for fixed rate and fixed term Primary Gas with either Centra under the Fixed Rate Primary Gas Service or with a retail gas marketer under the Western Transportation Service; and
- Customer Equipment Problems Program, or "burner tip service", to water heating appliances, stoves, and ranges in addition to furnaces and boilers. Previously, Swan Valley Gas only offered this service to furnaces and boilers.

Board Findings

The Board supports the provision of these additional services to customers in the Swan Valley Gas area, which will provide additional benefits to those customers.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure.

THE PUBLIC UTILITIES BOARD

"Régis Gosselin, B ès Arts, MBA ,CGA "

Chair

"H. M. Singh"

Secretary

Certified a true copy of Order No. 29/14
issued by The Public Utilities Board

Secretary

APPENDIX A

APPROVALS SOUGHT BY SWAN VALLEY GAS

Swan Valley Gas requested the following of the Board:

1. Approval of the sale of the assets of Swan Valley Gas Corporation (Swan Valley”) to Centra Gas Manitoba Inc. (“Centra”) in accordance with the terms of the Asset Purchase Agreement between Centra and Swan Valley, as of July 31, 2013; and
2. Approval of the assignment of the franchise agreements between Swan Valley and the RM of Swan River, the RM of Minitonas, The Town of Swan River, the Town of Minitonas, and the Village of Benito to Centra.

APPENDIX B

APPROVALS SOUGHT BY CENTRA

Centra requested the following of the Board:

1. Approval of the merger and consolidation of the assets of the Swan Valley Gas Corporation ("SVGC") into the assets of Centra in accordance with the terms of the Asset Purchase Agreement between Centra and SVGC, as of July 31, 2013, pursuant to section 82(1)(h) of *The Public Utilities Board Act*,
2. Approval of an Acquisition Surcharge of \$0.0304/m³ to be temporarily applied to the natural gas bills of customers in the SVGC service area, for a period of 48 months commencing with the first billing cycle upon closing of the transaction, in order to recover the purchase price paid by Centra for the assets of SVGC, pursuant to section 127(1) of *The Public Utilities Board Act*, and,
3. Approval of the assignment of the franchise agreements between SVGC and the Rural Municipality ("RM") of Swan River, the RM of Minitonas, the Town of Swan River, the Town of Minitonas and the Village of Benito to Centra, pursuant to sections 82(1)(h) and 89 *The Public Utilities Board Act*.

APPENDIX C

UNITS OF MEASUREMENT

Gas Volume represents the quantity of gas supplied and consumed by customers and is expressed in:

- Cubic metres (m³)

Energy represents the amount of heat provided and is measured in:

- joule (J) - international standard of measurement
- gigajoules (GJ) - 1,000,000,000 J
- British thermal unit - imperial standard of measurement, equal to 1055 J

One cubic metre of gas contains approximately 0.0378 GJ of energy.