CAC/MSOS
INFORMATION REQUESTS
TO SWAN VALLEY GAS CORPORATION CENTRA PROPOSED ACQUISTION
OF
SWAN VALLEY GAS CORPORATION (SVGC)

CAC/SVGC – 1

Reference: SVGC Application, Schedule E

Request:

a) Given that the SVGC financial statements show a net income of $52,000 for 2012, and dividends total ling more than $800,000 which were paid to SVGC's parent company in 2011, why does SVGC want to sell their assets in the Swan River area?

Reply:

Since the inception of SVGC in 2000, it has only declared dividends in 2011. This dividend was declared as SVGC had a cash balance. The sale of the SVGC assets was the only economically viable alternative for continued operation of the natural gas system.

b) The sale price of $200,000 appears to be much less than the book value of over $4 million, and still only a fraction of the net book value of about $1 million. Why is this sale attractive to SaskEnergy?

Reply:

The focus of the commercial sale transaction in this application was the effort of the vendor and purchaser in finding a solution to continued operation and viability of the SVGC utility and continued service to the existing customer base

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CAC/SVGC – 2

Reference: SVGC Application, page 2 of 29

Preamble: SVGC states that it was apparent to Swan Valley that ownership by Centra was the optimal solution to the business challenge that Swan Valley was facing as a standalone utility.

Request:

a) (i) What other solutions were considered and what were the reasons for their rejection?

(ii) Provide the back-up documentation pertaining to those options.

Reply:

The proposed sale of the SVGC assets was the only viable solution that provides for future viability and continued customer service in the franchise areas.

b) (i) Did SaskEnergy consider rolling-in the MIPL assets on the Saskatchewan side of the Border and sell the MIPL assets to Centra on the Manitoba side of the Border?

Reply:

Yes.

(ii) If not, describe in detail the reasons against such an option.

CAC/SVGC - 3

Reference: SVGC Application, Schedule E

Request:

Please provide the amount of revenue received from Louisiana Pacific for each of 2011 and 2012, resulting from the “standby fee” paid to SVGC for access to the SVGC system.

Reply:

SVGC recognized the following revenue from Louisiana Pacific for the demand charge:

2011	$99,600
2012	$53,600

CAC/SVGC - 4

Reference: SVGC Application

Request:

If the sale to Centra does not proceed, what other options does SaskEnergy have for the future operation of the SVGC system?

Reply:

The sale of the assets of SVGC to Centra is the only viable option for the future operation of the SVGC system.

CAC/SVGC - 5

Reference: SVGC Application, Schedule E – Statement of Comprehensive Income and Statement of Financial Position as at December 31

Request:

a) Explain the treatment of Government grants for 2011 and 2012.

Reply:

For financial reporting purposes, SVGC follows International Financial Reporting Standards (IFRS). Government grants are recognized as deferred revenue when there is reasonable assurance that the Corporation will comply with the relevant conditions of the grant and the grant will be received. As the Corporation's grants compensate the Corporation for the cost of an asset, grants are recognized in other revenue on a straight-line basis over the estimated useful life of the related asset.

b) What is the treatment of Government grants for 2013?

Reply:

Reference reply to CAC/SVGC 5(a)

c) What was the treatment year over year since 2000?

Reply:

Prior to SVGC's conversion to IFRS in 2011 the Corporation followed Canadian generally accepted accounting principles (GAAP). Government grants were recognized as an offset to property, plant and equipment. The grants were recognized in income on a straight-line basis over the estimated useful life of the related asset.

CAC/SVGC - 6

Reference: SVGC Application

Preamble: When the system was built, there were project contributions paid for by the Federal Government, Province of Manitoba, Local Municipalities and Swan Valley Gas customers. The original funding agreement shows contributions from Federal, Provincial, and Municipal governments, and customers, totalling approximately 7 million dollars. CAC wishes to understand the use and location of these dollars since they were received as contributions.

Request:

a) Did SaskEnergy or MIPL receive any “contributions towards the construction” for their part of the original pipeline or facilities built to serve SVGC?

Reply:

MIPL received a customer contribution from Louisiana Pacific towards the construction of the MIPL pipeline.

b) Please provide a statement of the final total project costs incurred by each company involved in the project, showing how the project funding received from the various levels of government under the May 4, 2000 “Project Funding Agreement” was distributed to SaskEnergy, TransGas, MIPL and SVGC.

Reply:

SVGC was the only recipient of funding under the referenced funding agreement. For further detail, please refer to the continuity schedules in Schedule 11 of the purchase and sale agreement.

c) Please provide a chart showing the project costs with the headings: **Capital Costs for Swan Valley Project; Contributions Received for Project; Net Project Capital Costs (net of contributions). Down left hand side of chart, on separate lines show: SaskEnergy; TransGas; MIPL; SVGC; Other.** Note that the total of the Project Contributions Received should balance with the contribution amounts received from all funding partners.

CAC/SVGC - 6

Reply:

Reference reply to CAC/SVGC 6(b).

d) If funds were received, did they offset the actual construction costs and reduce the applicable rate base or were they put into general revenue?

Reply:

Funds received offset the actual construction costs and reduced the applicable rate base.

e) What test/method did SaskEnergy and MIPL use to assess the feasibility of the original project, and to determine the contributions required?

Reply:

Please refer to the original SVGC Franchise Application that is on file with the Manitoba PUB.

f) (i) Was the test approved by the Manitoba PUB?

(ii) Please provide a copy of the original test results

Reply:

Please refer to the original SVGC Franchise Application that is on file with the Manitoba PUB.

CAC/SVGC - 7

Reference: Asset Purchase Agreement, SVGC Continuity Schedule – Amortization of Capital Contributions – Schedule 11

Request:

a) Reconcile the Government Capital Grants and other capital contributions (Continuity Schedule) with the Project Funding Agreement (Centra Application, Att. 3.4, page 3).

Reply:

The Project Funding Agreement is dated May 4, 2000, and amounts reflected in Article 3 – Funding Obligations represent the estimated total project funding based on estimated costs. The SVGC Continuity Schedule – Amortization of Capital Contributions represents actual project funding based on actual costs.

b) (i) Were the above contributions taken into revenue from 2000 – 2013?

Reply:

For regulatory purposes both government capital grants and other capital grants are deferred. Amounts are recognized in income on a straight-line basis over the estimated useful life of the related capital assets.

For financial reporting purposes, SVGC differentiates between customer capital contributions and government grants. Please refer to answers within CAC/SVGC 5 for financial reporting treatment of government grants.

Prior to conversion to IFRS, customer capital contributions were treated the same as government grants. Following conversion to IFRS, customer capital contributions are recognized initially as deferred revenue and are recognized as revenue once the related property, plant and equipment is available for use.

(ii) If so, for which legal entity?

CAC/SVGC - 7

Reply:

SVGC

(iii) If not, please explain in detail how they were treated.

Reply:

Reference reply to CAC/SVGC 7(b)(i).

c) (i) Has the interest earned, holding these contributions, been credited to the project?

Reply:

Not from a financial reporting perspective.

(ii) If not, explain why not and advise as to the amount of interest earned.

Reply:

Both the government capital grants and the other capital contributions were provided to compensate SVGC for the cost of constructing its capital assets, and reduced the overall rate base for rate making purposes.

CAC/SVGC - 8

Reference: Centra Application, Attachment 3.3

Preamble: CAC has concerns regarding the gas purchase and transportation arrangements with SaskEnergy, TransGas and MIPL which are basic to the ongoing feasibility of this project but are not part of this filing. According to Centra's Application, Attachment 3.3, the forecast is for 61,526 GJS to be sold in the gas year Nov. 13 – Oct. 14. The MIPL transportation charges are $57,038, or almost $1.00 per GJ.

Request:

a) Has the MIPL transportation tariff been adjusted for any funding dollars they may have received as part of the original project?

Reply:

The MIPL tariff at the time of the original project construction reflected the customer contribution from Louisiana Pacific.

b) (i) Given that the MIPL system has been depreciated for 13 years, has the tariff to serve SVGC been reduced to reflect the reduced rate base?

Reply:

The depreciation of the MIPL facilities that serve SVGC has been taken into account with respect to the calculation of the toll for those facilities, recognizing that depreciation is only one component of the total costs that are relevant in the rate setting process.

(ii) If the tariff has not been reduced over this time, please explain why not.