

CAC/Centra I-1

Reference: Centra Application

a) What is the target closing date for this transaction?

ANSWER:

If the proposed transaction is approved, the parties will need a few weeks to transition the operations between SVGC and Centra, and to notify customers.

In addition, Section 92(1) of the *The Public Utilities Board Act* requires publication of the PUB's order in The Manitoba Gazette, which will require approximately three weeks to complete.

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Reference: Centra Application

- b) What is the actual amount per year, in dollars, that ratepayers are required to subsidize as per the proposed acquisition as filed, allowing for inflation of expenses over the remaining life of the assets?**

ANSWER:

Based on the proposed acquisition as filed, the revenue deficiency has been estimated below based on 270 000 gas customers.

Acquisition of the Assets of the Swan Valley Gas Corporation

**CENTRA GAS MANITOBA INC.
CAC/Centra I-1(b)**

(\$000'S)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cost of Gas	-	-	318	318	317	317	317	317	317	318	317	317
Other Income	-	-	-	-	-	-	-	-	(1)	(1)	(1)	-
Operating & Administrative	-	-	87	282	283	93	95	97	99	101	103	105
Depreciation & Amortization	-	-	9	9	9	9	10	10	10	10	10	10
Capital & Other Taxes	-	-	117	117	118	118	118	118	118	117	117	117
Finance Expense	-	-	(1)	14	28	143	33	32	29	25	20	12
Corporate Allocation	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Total Cost of Service	-	-	530	740	755	680	573	574	572	570	566	561
Less Revenue at approved rates	-	-	464	464	464	464	414	415	414	414	414	415
Revenue Deficiency	-	-	66	276	291	216	159	159	158	156	152	146
Per Customer*	\$ -	\$ -	\$ 0.24	\$ 1.02	\$ 1.08	\$ 0.80	\$ 0.59	\$ 0.59	\$ 0.59	\$ 0.58	\$ 0.56	\$ 0.54

* estimated 270,000 customers

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Reference: Centra Application

- c) i) Why is there no complete financial analysis for the projected remaining life of the assets, on a standalone basis, indicating the feasibility for the assets to be acquired?**
- ii) Please provide these statements.**

ANSWER:

Please see Centra's response to CAC/Centra I-4(d).

CAC/Centra I-1

Reference: Centra Application

d) Why did Centra not use the PUB approved feasibility test applicable to system expansions to assess this expansion?

ANSWER:

Please see Centra's response to PUB/Centra I-18(a).

CAC/Centra I-2

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: Centra advised, in the GANG filing, that the GANG purchase price was calculated after an “Internal Business Valuation Report” was prepared by Chartered Business Valuators (CBV) on staff (GANG Tab 5, Attachment L), but it makes no mention of such a study for SVGC.

- a) i) Has an internal Business Valuation Report been prepared as per Tab 5, attachment L of the GANG acquisition filing?
- ii) If yes, please provide.
- iii) If not, why has Centra not used these internal resources to arrive at a valuation for this purchase?

ANSWER:

Please see Centra’s response to PUB/Centra I-21(a).

CAC/Centra I-2

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: Centra advised, in the GANG filing, that the GANG purchase price was calculated after an “Internal Business Valuation Report” was prepared by Chartered Business Valuators (CBV) on staff (GANG Tab 5, Attachment L), but it makes no mention of such a study for SVGC.

b) Please describe the method used to prepare the financial evaluation of this purchase.

ANSWER:

Please see Centra’s response to PUB/Centra I-21(a).

CAC/Centra I-3

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: The purchase price of SVGC consists of a \$1 down payment and \$200,000, which will be paid in \$50,000 instalments over 4 years, and is then to be recovered over the same 4 years with a surcharge to SVGC customers. Given this arrangement, it appears that the net purchase price to Centra, for the SVGC assets, will be \$1. This \$1 net investment by Centra suggests that the business has “0” actual value, and going forward, will likely lose money.

Please provide a financial analysis in the same form and methodology used in the Centra purchase of the GANG assets so that a comparable analysis of the SVGC purchase can be made.

ANSWER:

Please see Centra’s response to PUB/Centra I-21(a).

CAC/Centra I-4

Reference: Centra Application, Attachment 5.3, Page 1 – Projected Operating Statement for SVGC; GANG Application, MFR No. 21, Tab 5, Attachment M

Preamble: The GANG analysis covers a 50 year period (GANG Application, MFR No. 21, Tab 5, Attachment M), vs 10 years for SVGC. The 50 year study shows the calculated revenue requirement over that time frame, rather than just 10 years (Attachment 5.3, page 1) showing it as part of the SVGC revenue. This 10 year only presentation masks the significant long term impact on existing customers.

a) Why does Attachment 5.3, page 1, Projected Operating Statement for SVGC, show additional Revenue Requirement as part of revenue for SVGC, which then flows to Net Income, giving the impression that Net Income from SVGC is higher than it would be without a rate increase?

ANSWER:

Attachment 5.3 is a statement of differences between Attachment 5.2 (IFF12 + Swan Valley Gas Corporation Case) and IFF12 (Base Case).

“General Consumers at approved rates” in Attachment 5.2 forecasts revenue for each year based on the rates currently approved by the PUB for existing Centra and SVGC customers.

“General Consumers additional revenue requirement” in Attachment 5.2 projects additional revenue required over all 270 000 gas customers (existing Centra and SVGC customers) in

order to achieve the same retained earnings level by Centra after 10 years, had the
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Acquisition of the Assets of the Swan Valley Gas Corporation

acquisition not occurred. The additional revenue required equates to a projected 0.008% per year (reflected in “additional revenue required”).

The additional revenue requirement included in Attachment 5.3 reflects the projected additional revenue requirement of 0.008% per year for existing Centra and SVGC customers.

CAC/Centra I-4

Reference: Centra Application, Attachment 5.3, Page 1 – Projected Operating Statement for SVGC; GANG Application, MFR No. 21, Tab 5, Attachment M

Preamble: The GANG analysis covers a 50 year period (GANG Application, MFR No. 21, Tab 5, Attachment M), vs 10 years for SVGC. The 50 year study shows the calculated revenue requirement over that time frame, rather than just 10 years (Attachment 5.3, page 1) showing it as part of the SVGC revenue. This 10 year only presentation masks the significant long term impact on existing customers.

b) Please provide this statement showing the additional revenue requirement as a product of the projected Net Income (Loss) due to the SVGC purchase.

ANSWER:

Please see Centra's response CAC/Centra I-1b for the revenue deficiency resulting from this transaction. Please also see Centra's response to CAC/Centra I-4(a), which provides an explanation of the "additional revenue requirement" line from Attachment 5.3.

CAC/Centra I-4

Reference: Centra Application, Attachment 5.3, Page 1 – Projected Operating Statement for SVGC; GANG Application, MFR No. 21, Tab 5, Attachment M

Preamble: The GANG analysis covers a 50 year period (GANG Application, MFR No. 21, Tab 5, Attachment M), vs 10 years for SVGC. The 50 year study shows the calculated revenue requirement over that time frame, rather than just 10 years (Attachment 5.3, page 1) showing it as part of the SVGC revenue. This 10 year only presentation masks the significant long term impact on existing customers.

c) In MFR No. 21, Tab 5, Attachment M of the GANG filing, Centra presents a 50 year Revenue Requirement Impact using projected revenues and costs for the 50 year period to arrive at the Revenue Requirement impact of the GANG purchase. Please provide this same analysis for the purchase of the SVGC assets.

ANSWER:

Please see the attachment to this response.

As noted in the response to CAC/Centra I-4d, the analysis provided in Tab 5, Attachment M of Centra's Application of the Proposed Acquisition of the Assets of Gladstone, Austin Natural Gas Co-op Ltd., was based on a rate base rate of return methodology. Since 2005/06, Centra's rates have been set on the basis of a cost of service methodology, where

Acquisition of the Assets of the Swan Valley Gas Corporation

the annual revenue requirement used to determine rates includes the costs incurred by the utility on a forecast basis, plus a sufficient contribution to retained earnings.

In the current Application, Centra has analyzed the impact of the proposed transaction on existing customers using the Corporation's established financial forecasting model.

Based on this analysis provided in the attachment to this response, on a net present value basis and an estimate of 270,000 customers, the impact of this acquisition is \$8.89 per customer over the 50 year time horizon or \$0.18 per customer each year for the next 50 year.

Centra Gas Manitoba Inc.

Acquisition of the Assets of the Swan Valley Gas Corporation

CAC/Centra I-4c)

Attachment

Year #	Total Revenue	Cost of Gas	O&M	Capital & Municipal Taxes	Return on Rate Base	Depreciation	Total	Discount Factor	Discounted Revenue Sufficiency (Requirement)	Cumulative Discounted Revenue Sufficiency (Requirement)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	464,100	(317,467)	(231,900)	(120,800)	(11,841)	(3,642)	(221,550)	0.9469	(209,781)	(209,781)
2	464,100	(317,467)	(279,856)	(120,800)	(11,636)	(3,642)	(269,301)	0.8966	(241,450)	(451,231)
3	464,100	(317,467)	(279,856)	(120,800)	(11,432)	(3,642)	(269,097)	0.8490	(228,451)	(679,682)
4	464,100	(317,467)	(87,700)	(120,800)	(11,227)	(3,642)	(76,736)	0.8039	(61,685)	(741,367)
5	414,100	(317,467)	(87,700)	(120,800)	(13,303)	(5,721)	(130,892)	0.7612	(99,629)	(840,997)
6	414,100	(317,467)	(87,700)	(120,800)	(12,982)	(5,721)	(130,570)	0.7207	(94,105)	(935,102)
7	414,100	(317,467)	(87,700)	(120,800)	(12,661)	(5,721)	(130,249)	0.6824	(88,887)	(1,023,989)
8	414,100	(317,467)	(87,700)	(120,800)	(12,340)	(5,721)	(129,928)	0.6462	(83,958)	(1,107,948)
9	414,100	(317,467)	(87,700)	(120,800)	(12,019)	(5,721)	(129,607)	0.6119	(79,302)	(1,187,249)
10	414,100	(317,467)	(87,700)	(120,800)	(11,697)	(5,721)	(129,286)	0.5794	(74,903)	(1,262,152)
11	414,100	(317,467)	(87,700)	(120,800)	(11,376)	(5,721)	(128,965)	0.5486	(70,748)	(1,332,901)
12	414,100	(317,467)	(87,700)	(120,800)	(11,055)	(5,721)	(128,643)	0.5194	(66,823)	(1,399,724)
13	414,100	(317,467)	(87,700)	(120,800)	(10,734)	(5,721)	(128,322)	0.4919	(63,116)	(1,462,839)
14	414,100	(317,467)	(87,700)	(120,800)	(10,413)	(5,721)	(128,001)	0.4657	(59,613)	(1,522,452)
15	414,100	(317,467)	(87,700)	(120,800)	(10,092)	(5,721)	(127,680)	0.4410	(56,305)	(1,578,757)
16	414,100	(317,467)	(87,700)	(120,800)	(9,770)	(5,721)	(127,359)	0.4176	(53,180)	(1,631,937)
17	414,100	(317,467)	(87,700)	(120,800)	(9,449)	(5,721)	(127,037)	0.3954	(50,228)	(1,682,165)
18	414,100	(317,467)	(87,700)	(120,800)	(9,128)	(5,721)	(126,716)	0.3744	(47,440)	(1,729,605)
19	414,100	(317,467)	(87,700)	(120,800)	(8,807)	(5,721)	(126,395)	0.3545	(44,806)	(1,774,411)
20	414,100	(317,467)	(87,700)	(120,800)	(8,486)	(5,721)	(126,074)	0.3357	(42,318)	(1,816,729)
21	414,100	(317,467)	(87,700)	(120,800)	(8,164)	(5,721)	(125,753)	0.3178	(39,968)	(1,856,696)
22	414,100	(317,467)	(87,700)	(120,800)	(7,843)	(5,721)	(125,431)	0.3009	(37,748)	(1,894,445)
23	414,100	(317,467)	(87,700)	(120,800)	(7,522)	(5,721)	(125,110)	0.2850	(35,651)	(1,930,096)
24	414,100	(317,467)	(87,700)	(120,800)	(7,201)	(5,721)	(124,789)	0.2698	(33,671)	(1,963,767)
25	414,100	(317,467)	(87,700)	(120,800)	(6,955)	(4,377)	(123,199)	0.2555	(31,476)	(1,995,243)
26	414,100	(317,467)	(87,700)	(120,800)	(6,755)	(3,558)	(122,180)	0.2419	(29,558)	(2,024,801)
27	414,100	(317,467)	(87,700)	(120,800)	(6,556)	(3,558)	(121,980)	0.2291	(27,942)	(2,052,742)
28	414,100	(317,467)	(87,700)	(120,800)	(6,356)	(3,558)	(121,781)	0.2169	(26,414)	(2,079,157)
29	414,100	(317,467)	(87,700)	(120,800)	(6,156)	(3,558)	(121,581)	0.2054	(24,970)	(2,104,127)
30	414,100	(317,467)	(87,700)	(120,800)	(5,956)	(3,558)	(121,381)	0.1945	(23,605)	(2,127,731)
31	414,100	(317,467)	(87,700)	(120,800)	(5,666)	(5,169)	(122,702)	0.1841	(22,594)	(2,150,326)
32	414,100	(317,467)	(87,700)	(120,800)	(5,493)	(3,079)	(120,439)	0.1744	(20,999)	(2,171,325)
33	414,100	(317,467)	(87,700)	(120,800)	(5,321)	(3,079)	(120,267)	0.1651	(19,855)	(2,191,180)
34	414,100	(317,467)	(87,700)	(120,800)	(5,148)	(3,079)	(120,094)	0.1563	(18,774)	(2,209,954)
35	414,100	(317,467)	(87,700)	(120,800)	(4,534)	(10,934)	(127,335)	0.1480	(18,848)	(2,228,802)
36	414,100	(317,467)	(87,700)	(120,800)	(4,386)	(2,633)	(118,886)	0.1402	(16,663)	(2,245,465)
37	414,100	(317,467)	(87,700)	(120,800)	(4,238)	(2,633)	(118,739)	0.1327	(15,758)	(2,261,223)
38	414,100	(317,467)	(87,700)	(120,800)	(4,090)	(2,633)	(118,591)	0.1257	(14,903)	(2,276,126)
39	414,100	(317,467)	(87,700)	(120,800)	(3,943)	(2,633)	(118,443)	0.1190	(14,093)	(2,290,219)
40	414,100	(317,467)	(87,700)	(120,800)	(3,795)	(2,633)	(118,295)	0.1127	(13,328)	(2,303,547)
41	414,100	(317,467)	(87,700)	(120,800)	(3,647)	(2,633)	(118,147)	0.1067	(12,604)	(2,316,151)
42	414,100	(317,467)	(87,700)	(120,800)	(3,499)	(2,633)	(117,999)	0.1010	(11,920)	(2,328,071)
43	414,100	(317,467)	(87,700)	(120,800)	(3,351)	(2,633)	(117,852)	0.0956	(11,272)	(2,339,344)
44	414,100	(317,467)	(87,700)	(120,800)	(3,203)	(2,633)	(117,704)	0.0906	(10,660)	(2,350,004)
45	414,100	(317,467)	(87,700)	(120,800)	(3,056)	(2,633)	(117,556)	0.0858	(10,081)	(2,360,085)
46	414,100	(317,467)	(87,700)	(120,800)	(2,908)	(2,633)	(117,408)	0.0812	(9,534)	(2,369,619)
47	414,100	(317,467)	(87,700)	(120,800)	(2,776)	(2,340)	(116,983)	0.0769	(8,995)	(2,378,614)
48	414,100	(317,467)	(87,700)	(120,800)	(2,635)	(2,518)	(117,020)	0.0728	(8,520)	(2,387,133)
49	414,100	(317,467)	(87,700)	(120,800)	(2,494)	(2,518)	(116,879)	0.0689	(8,057)	(2,395,191)
50	414,100	(317,467)	(87,700)	(120,800)	(2,352)	(2,518)	(116,738)	0.0653	(7,620)	(2,402,811)
Total	20,905,000	(15,873,350)	(4,913,512)	(6,040,000)	(366,449)	(215,359)	(6,503,670)		(2,402,811)	

CAC/Centra I-4

Reference: Centra Application, Attachment 5.3, Page 1 – Projected Operating Statement for SVGC; GANG Application, MFR No. 21, Tab 5, Attachment M

Preamble: The GANG analysis covers a 50 year period (GANG Application, MFR No. 21, Tab 5, Attachment M), vs 10 years for SVGC. The 50 year study shows the calculated revenue requirement over that time frame, rather than just 10 years (Attachment 5.3, page 1) showing it as part of the SVGC revenue. This 10 year only presentation masks the significant long term impact on existing customers.

d) Explain why Centra is now using a new method, which is different from the PUB approved GANG purchase methodology, and also different from Centra's PUB approved 30 year NPV feasibility test.

ANSWER:

Please see Centra's response to PUB/Centra I-18(a), for a discussion on the purpose of the natural gas service extension feasibility test.

The analysis provided in Tab 5, Attachment M of Centra's Application of the Proposed Acquisition of the Assets of Gladstone, Austin Natural Gas Co-op Ltd filed in 2003, was based on a rate base rate of return methodology. Since 2005/06, Centra's rates have been set on the basis of a cost of service methodology, where the annual revenue requirement used to determine rates includes the costs incurred by the utility on a forecast basis, plus a sufficient contribution to retained earnings.

Acquisition of the Assets of the Swan Valley Gas Corporation

In the current Application, Centra has analyzed the impact of the proposed transaction on existing customers using the Corporation's established financial forecasting model. The financial forecasting model is used on a routine basis to measure the potential impact of various, significant risk scenarios as part of the preparation of the annual Integrated Financial Forecast.

The analysis in Attachment 5.3 shows the impact of the proposed transaction on Centra's requested additional revenue requirement, to achieve the same retained earnings by 2024 as forecasted in CGM12, is expected to be approximately 0.008% per year for ten years, or 0.09% cumulatively over ten years. The selection of a ten year period to analyze the forecast impacts of the acquisition of the assets of SVGC is consistent with the approach used in the Corporation's risk scenarios included in the annual Integrated Financial Forecast.

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

- a) Confirm that Centra’s rolled in the gas purchase and transportation requirements for GANG was based on the premise that there were similarities between the two physical supply systems and the purchase arrangements.**

ANSWER:

Not confirmed. Given the relatively small size of the transactions and the immaterial impact on the rates of existing customers, it was viewed as most efficient to roll in the assets into Centra’s existing system to avoid maintaining separate accounts, rate bases, revenue requirements, cost allocation studies, and rates.

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

b) What is the justification for using a rolled-in cost of gas approach for SVGC, when the supply and transportation arrangements are markedly different from Centra’s existing system?

ANSWER:

Please see Centra’s response to CAC/Centra I-5a.

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

c) Confirm that the MIPL charges expose Centra customers to an additional cost for the life of the line, over which Centra customers have no control.

ANSWER:

MIPL is regulated by the National Energy Board (NEB). Centra would intervene, as required, before the NEB in the event that proposed tolls on the MIPL system appeared unjust or unreasonable.

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

d) What consideration has Centra made to reduce the risk of exposure to the MIPL on-going charges that are a significant component of the cost of gas?

ANSWER:

Please see Centra's response to CAC/Centra I-5(c).

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

e) Why does Centra want to further expose Manitoba ratepayers to costs for the MIPL system, under the proposed acquisition, over which it will have no control?

ANSWER:

Transporting gas on the TransGas and MIPL systems is the most cost effective method of serving SVGC customers. The impact on Centra's existing ratepayers is not material.

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

f) What alternative gas supply options did Centra investigate, in order to mitigate the high cost of gas and transportation, to serve the SVGC area and why were they rejected?

ANSWER:

The alternative to avoiding use of upstream capacity on the MIPL system would be to construct new facilities to connect the SVGC system to Centra's distribution system. The existing facilities of the TransGas and MIPL systems have effectively served the SVGC market to date. Going forward, this approach makes sense for Centra given that the SVGC franchise area is non-contiguous with Centra's distribution system and there is access to cost-effective existing upstream transportation.

CAC/Centra I-5

Reference: Gladstone-Austin Natural Gas Co-op (GANG) Acquisition Application by Centra – PUB Board Order 20/04

Preamble: In the GANG application, Centra supported the use of a rolled-in cost of gas in the feasibility assessment. Although GANG used a different TCPL take off than Centra, ultimately the same transportation system and suppliers were used going forward, which is not the case with SVGC. The Many Islands Pipe Lines (Canada) Ltd. („MIPL“) charges expose Centra customers to an additional cost which affects the feasibility results as compared to GANG.

g) If the proposed acquisition proceeds as filed, will the Manitoba PUB have any oversight of MIPL operations in Manitoba or in its ratemaking?

ANSWER:

No, MIPL is regulated by the National Energy Board, an independent federal agency responsible for the regulation of the international and interprovincial aspects of the oil, gas and electric utility industries.

CAC/Centra I-6

Reference: Centra Application, Tab 1, page 3, lines 3 - 6

Preamble: Centra will advise the communities that they have the option to enter into a new franchise agreement with Centra in the form of the Generic Franchise Agreement, which will be subject to PUB approval.

What are the main differences between the current franchise agreements being assumed by Centra, and the Generic Form?

ANSWER:

The Swan Valley Gas Corporation (SVGC) franchise agreements being assumed by Centra are in general, in the form of the Centra generic franchise agreement approved by Order 109/94. In 2011, the PUB approved several amendments to the generic franchise agreement by Order 159/11. As a result, there are several differences between the SVGC franchise agreements and Centra's current generic franchise agreement that are best summarized in Section 5 of Order 159/11. Section 5 of Order 159/11 is provided as Attachment 1 to this response.

There are two additional differences of note between the SVGC franchise agreements and Centra's generic franchise agreement:

- Section 6(b) of the SVGC franchise agreement, similar to Section 7 of Centra's generic franchise agreement, pertains to the Municipality having regard to reasonable directions of the Company concerning work the Municipality may be required to carry out that may affect the Gas Distribution System, but that the

death or property damage done by reason of any such work. Unlike Centra's generic franchise agreement, the SVGC franchise agreements include language that would negate the Company's indemnification of the Municipality for injury, death or property damage under certain circumstances by adding, "except such injury, death or damage as may be caused by negligence or willful misconduct of the Municipality or its employees, servants, agents or contractors". This exception was not included in the generic franchise agreement approved by the PUB in 1994.

- Section 11(a) of the SVGC and Section 13 of the Centra franchise agreements pertain to renewal periods and the option of the Municipality to purchase the Gas Distribution System at the expiration of the term or renewal period after giving one year's notice, and the process by which to establish and settle on price. The SVGC franchise agreement does not indicate the Board's decision is binding:

Centra's Generic Franchise:

-"The decision of the Board or of a majority of the said arbitrators shall be binding upon the parties in arriving at the price. The Board or the said arbitrators shall make allowance for severance of the property and operation from other properties and operations of the Company in Manitoba. "

SVGC Franchises:

- "...The decision of the Board or of a majority of the said arbitrators shall make allowance for severance of the property and operation from other properties and operations of the Company in Manitoba.

In addition, a copy of Centra's current generic franchise agreement that has been black-lined to show all differences between it and the SVGC franchise agreements is provided as Attachment 2 to this response.

Acquisition of the Assets of the Swan Valley Gas Corporation

enter into a new franchise agreement with Centra in the form of the Generic Franchise Agreement, which will be subject to approval by the PUB.

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5.0.0 BOARD FINDINGS – PART 3 OF 3 OF CENTRA’S APPLICATION –
REVISIONS TO THE GENERIC FRANCHISE AGREEMENT

5.1.0 History

The Board approved the existing form of Generic Franchise Agreement in Board Order 109/94. Order 109/94 and the application that gave rise to it were issued as a result of the Province of Manitoba’s Rural Expansion Policy announced with the Province’s 1992 Throne speech. At the time, Centra was planning to expand natural gas service to 23 communities. Since franchise agreements must be approved by the Board, the Board heard an application with respect to a generic form of a franchise agreement that could be used for all municipalities. After hearing submissions from several interveners and 15 municipalities, the Board approved the Generic Franchise Agreement as it still exists today.

As of November 2011, a total of 42 municipalities have entered into franchises corresponding to the Generic Franchise Agreement.

5.2.0 Lack of Intervenors

The hearing that gave rise to Board Order 109/94 was lengthy, held in three different locations, and involved eight intervenors and 15 presenters. In contrast, not a single party applied for intervenor status with respect to Part 3 of Centra’s current Application. However, the Board accepts that potentially interested parties were provided with due notice.

5.3.0 Effect on Municipalities if Part 3 of Centra’s Application is Granted

If the Board were to grant Part 3 of Centra’s Application, all future expansions of natural gas service to rural municipalities currently not served by Centra will be subject to the new form of Generic Franchise Agreement, unless the parties to a potential franchise apply to the Board for special conditions.

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Centra has also indicated that it will permit those municipalities who are subject to the existing Generic Franchise Agreement to switch over to the new form of agreement without any time limit or other restrictions on this ability. Municipalities that have existing Generic Franchise Agreements are therefore not prejudiced by any Order of the Board with respect to Part 3 of Centra's Application, as the Generic Franchise Agreement in its current form is renewable in ten-year increments and municipalities, with existing Generic Franchise Agreements, can elect to renew them indefinitely.

Centra has also advised that it is prepared to allow all municipalities that have signed franchise agreements not corresponding to the existing Generic Franchise Agreements to switch over to the Proposed Generic Franchise Agreement, if approved. This is significant as there are currently 14 different types of franchise agreements with Centra in place across Manitoba.

Consolidation towards fewer different types of agreements would be a positive step.

5.4.0 Requests by Municipalities to Extend Gas Service.

Section 2(2) of the Proposed Generic Franchise Agreement contains a new condition that, in essence, states that whenever Centra receives a request from a municipality to extend gas service to a new location, Centra will work with the municipality to develop a viable business model. This language mirrors what Centra proposes for the Negotiated Schedule to the *GWGDA*. Accordingly, for the reasons as further discussed in section 3.6.0 above, the Board approves this amendment subject to the addition of the following at the end of Section 2(2):

All such extensions for service shall be subject to the Company's feasibility test as approved by The Public Utilities Board from time to time. The Company further agrees that if the Company is unable to develop a viable business model with the Municipality, the Company shall relinquish that portion of the Municipality from the franchise previously granted if asked to do so by the Municipality.

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The Board's requirement would create an inconsistency in section 12 of the Proposed Generic Franchise Agreement, which stipulates as follows:

The Municipality agrees that it will not, for a period of thirty (30) years or longer, if this Agreement is renewed in accordance with the provision of paragraph 13 hereof, grant to any other person, firm or corporation the right to deliver natural gas within the Municipality or to erect or maintain a Gas Distribution System in, upon, over, across, under or along its Highways for the purpose of supplying and distributing natural gas.

To make section 12 consistent with the Board's requirement for Centra to relinquish an area of its franchise under certain circumstances, the Board requires section 12 of the Proposed Generic Franchise Agreement to be amended as follows (addition shown in underlined text):

The Municipality agrees that it will not, for a period of thirty (30) years or longer, if this Agreement is renewed in accordance with the provision of paragraph 13 hereof, grant to any other person, firm or corporation the right to deliver natural gas within the franchise area of the Municipality or to erect or maintain a Gas Distribution System in, upon, over, across, under or along its Highways within the franchise area for the purpose of supplying and distributing natural gas.

5.5.0 Limited Deliverability and Allocation of Natural Gas

Centra proposes to add a clause to section 2(5) of the Proposed Generic Franchise Agreement that would stipulate that if Centra cannot obtain sufficient gas at the limits of a franchise area to service the existing customers, Centra has a right to prescribe reasonable rules and regulations as to how it should allocate gas, subject to the provisions of *The Gas Allocation Act*. For the reasons as further discussed in section 3.7.0, the Board approves this amendment.

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5.6.0 Municipal Approval of Construction Plans

Section 3(1) of the Proposed Generic Franchise Agreement requires construction plans for the installation of any gas infrastructure or changes thereto to be approved by the Municipal Engineer of the municipality. Section 3(1) also specifies the preferred installation location to be unpaved surfaces instead of lanes whenever practicable, reasoning that installation and maintenance is generally easier when no concrete or asphalt has to be removed. For the reasons as further discussed in Section 3.8.0, the Board approves this amendment.

5.7.0 Requests for As-Built Plans for the Distribution System

Centra proposes to change the requirement of the existing Generic Franchise Agreement to provide municipalities with as-built drawings of the existing gas infrastructure at Centra's costs to a requirement to provide drawings only twice, on demand, in any twelve-month period. For the reasons as further discussed in Section 3.9.0 above, the Board approves this amendment, with the same caveat as set out in that section, namely that Centra invoice Board-approved charge-out rates for more frequent requests and apply for approval of such rates as part of the next General Rate Application.

5.8.0 Process for Restoration Work after Construction

Subsection 5(c) of the Proposed Generic Franchise Agreement provides for a new restoration notification process by which Centra agrees to provide notice to the affected municipality within 30 days after Centra has restored highways or other areas following work on Centra's gas infrastructure. For the reasons as further discussed in Section 3.10.0 above, the Board approves this amendment.

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5.9.0 Responsibility for Infrastructure Removals or Relocation

Pursuant to section 7(d) of the existing Generic Franchise agreement, municipalities are solely responsible for the cost of municipally requested infrastructure relocations. The text of section 7(d) is as follows:

7(d) Where the Municipality requests the removal or relocation of any part of the natural gas distribution system and, in the opinion of the Company it is practicable and convenient to do so, the Company shall effect such removal or relocation as soon as is reasonably possible after such request is made, provided that all costs in connection with such removal or relocation shall be paid by the Municipality including, without limiting the generality of the foregoing;

- (i) The cost of repairs to any highway; and*
- (ii) The net book value plus the cost of replacement, less salvage value, of any part of the removed or relocated natural gas distribution system that is rendered unusable by virtue of such removal or relocation.*

Centra proposes to delete this section and, instead, add a new section 5(g) that would state as follows:

(g) notwithstanding paragraph (f) above, where the removal or relocation of any part of the Gas Distribution System is required by the Municipality, the costs and expenses incurred in the removal and replacement or the relocation shall be apportioned between the Company and the Municipality in such a manner as they may agree upon, or in the absence of an agreement, shall be apportioned equally.

For the reasons elaborated on in section 3.11.3, the Board denies this amendment and requires the cost attribution rule set out in Order 58/63 to be applied to all municipalities.

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5.10.0 Levy of Taxes by Municipalities

Section 10 of the Proposed Generic Franchise Agreement would add a provision stipulating that Centra shall pay all legally and properly levied municipal taxes. The existing Generic Franchise Agreement is silent on this issue.

Centra already is responsible for municipal taxes, as pipelines and gas distribution systems are assessable property under the *Municipal Assessment Act*. Centra advises that all municipalities in which Centra has pipelines or gas distribution infrastructure levy municipal taxes, although the Town of Gladstone, RM of North Norfolk and RM of Westbourne refund taxes pursuant to the franchise agreements entered into with the former Gladstone Austin Natural Gas Co-Op.

The Board accepts that the proposed Section 10 provides clarification and approves the amendment.

5.11.0 Onus of Renewal

Sections 13.(1) and 13.(2) of the Proposed Generic Franchise Agreement specify the rights and responsibilities of the municipalities and Centra for renewal of the franchises. These remain unchanged from the existing Generic Franchise Agreement and require Centra to provide notice to the respective municipality two years before the expiry of the franchise. One year prior to the expiry of the franchise, the municipality can elect to purchase the gas infrastructure and terminate the franchise; otherwise, the franchise is renewed automatically.

The Board approves this amendment but requires that the reference to "*paragraph 11(a) hereof*" in Section 13.(2) to be changed to "*paragraph 13(1) hereof*" to correct an apparent cross-referencing error.

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

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Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

Schedule A

MEMORANDUM OF AGREEMENT made this ____ day of _____, 2013.

BETWEEN:

THE RURAL MUNICIPALITY OF _____,
(hereinafter called the "Municipality"),

- and -

CENTRA GAS MANITOBA INC.,
(hereinafter called the "Company").

WHEREAS the Municipality is desirous of obtaining a supply of natural gas for the Municipality and the inhabitants thereof not currently receiving natural gas;

AND WHEREAS it is agreed between the Municipality and the Company that the Company supply ~~and distribute~~ natural gas to the Municipality and its inhabitants in the ~~Rural Municipality of _____, in Manitoba,~~ and as set out in the map attached as Appendix 1 hereto (the "Territory"), upon the terms and conditions set out herein;

AND WHEREAS by by-law duly passed by the Council of the Municipality (the "By-law"), the ~~Reeve-Mayor~~ and the ~~Chief Administrative Officer (CAO)~~ Secretary/Treasurer have ~~ing~~ been authorized and directed to execute this Agreement on behalf of the Municipality;

NOW THEREFORE pursuant to the premises and in consideration of the sum of TEN DOLLARS (\$10.00) now paid by the Company to the Municipality (the receipt of which is hereby acknowledged), and in further consideration of the mutual covenants hereinafter set forth it is mutually covenanted and agreed by the parties as follows:

1. Subject to compliance with the provisions of *The Municipal Act* (Manitoba), *The Public Utilities Board Act* (Manitoba) and *The Gas Pipe Line Act* (Manitoba), the Municipality hereby grants to the Company, its successors and assigns, subject to the

terms, conditions and provisions herein contained, the sole and exclusive franchise to ~~distribute-supply~~ natural gas to the Municipality and its inhabitants in the Territory, for a term of thirty (30) years from the date hereof. Provided always however, the Company agrees that with respect to all those portions of the Territory which the Company does not supply natural gas to, in the event the Municipality, acting reasonably, requests the Company to supply natural gas upon the same terms and conditions as provided in this Agreement, and the Company refuses to do so, the Company shall relinquish that portion of the Territory from the franchise hereinbefore granted. The Municipality further grants to the Company the full power, right, licence and liberty to enter upon property of the Municipality and to ~~break the surface and make necessary excavations to~~ lay down, take up, relay, connect, disconnect, repair, remove, maintain, replace and operate a gas distribution system and any and all necessary or convenient mains, pipes, services, and all other equipment and appliances as the ~~C~~company may deem desirable for the supply, transmission and distribution of gas (collectively the "Gas Distribution System") in, upon, over, across, under and along the public highways, streets, roads, bridges, walkways, sidewalks, road allowances, squares, lanes, alleys, ditches, ~~drainage systems~~ and other public places (collectively the "~~Highways~~Roads") within the boundaries of the Municipality as the same may from time to time exist, as may be necessary or convenient for the purpose of transporting and, supplying, ~~and delivering~~ natural gas to the consumers thereof. The Company is hereby authorized for the purposes aforesaid to enter upon any or all of the said Roads and to break the surface and make the necessary excavations therein and, without limiting the generality of all of the foregoing, to do all things reasonably necessary or convenient for the supplying of natural gas and for laying down, taking up, relaying, connecting, disconnecting, repairing, removing, maintaining, replacing and operating the Gas Distribution System.

2.(1a) Subject to the provisions hereof, ~~the Swan Valley Gas Company~~ agrees that during the term of ~~the~~ Agreement, it will install and maintain an adequate natural gas distribution system within the Territory and will provide such quantities of natural gas as

will meet the requirements of the inhabitants, businesses and industries located in the Territory.

~~2.(2) The Company agrees that with respect to any portion of the Territory which the Company does not supply natural gas to, in the event the Municipality, acting reasonably, requests the Company to supply natural gas upon the same terms and conditions as provided in this Agreement, the Company will work together with the Municipality with a view of developing a viable business model in relation to that portion of the Territory. All such extensions for service shall be subject to the Company's feasibility test as approved by The Public Utilities Board of Manitoba (the Board) from time to time. The Company further agrees that if the Company is unable to develop a viable business model with the Municipality, the Company shall relinquish that portion of the Territory from the franchise previously granted if asked to do so by the Municipality.~~

~~2.(3) For the purpose of implementing a distribution system expansion for the attachment of new customers pursuant to clause 2(1), the Company shall, whenever a request is made for gas service by any inhabitant or industry of the Municipality in a location not served by the existing system of the Company, comply with the request provided the request meets criteria filed with and approved by the Board for expansion of the distribution system and does not unduly affect customers on the existing system. Such criteria may include but not be limited to estimates of customers, sales, volumes, revenues, costs, and return on investment, the effect upon existing customers and any customer contribution in aid of construction. The criteria shall be reviewed by the Board from time to time as the Board deems necessary or as may be requested by the Company.~~

~~2.(4)(b)~~ The Company Swan Valley Gas shall not be bound to construct or extend its mains or provide natural gas or gas service if ~~the Company~~ Swan Valley Gas is, for any reason, unable to obtain delivery of natural gas at or near the limits of the Territory, or an adequate supply thereof to warrant the construction or extension of its mains for the

provision of natural gas; or, in connection with the extension of its mains, if such extension is not reasonable and would not furnish sufficient business to justify the construction and maintenance thereof; any such extension, including contributions toward the cost of construction which may be required from inhabitants, businesses and industries located in the Territory, shall be in accordance with policies approved from time to time by the Board;

2.(5)(c) In the event the amount of natural gas supplied to ~~the Company Swan Valley Gas~~ at or near the limits of the Territory is insufficient to meet the requirements of connected ~~customers~~ consumers, ~~the Company Swan Valley Gas~~ shall have the right to prescribe reasonable rules and regulations for allocating the available supply of natural gas to domestic, commercial and industrial ~~customers~~ consumers in that order of priority. The allocation of natural gas shall also be subject to the provisions of The Gas Storage and The Allocation Act (Manitoba) and Regulations thereto; ~~and any orders made pursuant to The Emergency Measures Act (Manitoba).~~

2.(6)(d) In the event that either of the conditions referred to in subsections (4b) and (5c) occur or are likely to occur, ~~the Company Swan Valley Gas~~ will advise the Municipality thereof as soon as the conditions become apparent to ~~the Company Swan Valley Gas~~.

53. The Company agrees:

- (a) in the execution of the rights and powers granted hereby and in the performance of the work in connection therewith, it shall do as little damage as possible and shall keep passage of the ~~Highways~~ Roads as far as may be practicable free and uninterrupted;
- (b) it shall not interfere with, disturb or damage any existing pipes or lines of other utilities, unless the express consent of such other utilities is first had and received;

- ~~_____ (c) it shall, within a reasonable time after any construction work, restore the Highways, Roads and other areas where construction has occurred to a state of repair as nearly as possible ~~equal~~ to their former state to the satisfaction of the Municipality acting reasonably, where such restoration is required by reason of the Company having installed or constructed the Gas Distribution System or part thereof; unless another process is established by municipal bylaw. Within thirty (30) days of completion of the restoration work the Company shall give notice in writing to the Municipal Engineer that the work and restoration have been completed and inspected. The Municipal Engineer acting reasonably shall advise the Company in writing of any deficiencies in connection with the construction work or restoration. If the Municipality fails to provide such advice within six (6) months of the Company's notice to the Municipality and unless an extension of time has been mutually agreed, the Municipality will be deemed to have accepted the restoration work;~~
- (d) in the execution of the rights and powers granted hereby, it shall construct, locate and operate its Gas Distribution System in such manner as will not endanger the public health or safety;
- ~~(e) any pipe line found not in accordance with the depth of cover requirements established by the Board pursuant to *The Gas Pipe Line Act* (Manitoba) as a result of improper installation shall be lowered, relocated or suitably protected by, and at the expense of the Company;~~
- ~~(f) (SVGC 7(a)) all costs in connection with the removal or relocation of any part of the Gas Distribution System, including the cost of repairs to any~~

~~Highways, shall be the Company's responsibility except where such removal or relocation is required by the Municipality; and,~~

~~(g) notwithstanding paragraph (f) above, where the removal or relocation of any part of the Gas Distribution System is required by the Municipality, the costs and expenses incurred in the removal and replacement or the relocation shall be as follows:~~

~~(i) the Municipality shall pay to the Company an amount equal to the cost of labour and material required in the original construction of that part of the Gas Distribution System that the Municipality requests to be relocated, less depreciation and the value of any material salvaged; and~~

~~(ii) the Company shall bear the entire cost of constructing the required Gas Distribution System infrastructure in the new location.~~

~~3.(1)4.~~ Prior to the installation of any part of the Gas Distribution System, the Company shall file ~~plans~~ with the Municipality municipal engineer plans, which shall mean a professional engineer employed directly or indirectly by the Municipality or such other person as may be designated by the council of the Municipality to carry out the functions and duties of the Municipal Engineer as herein described ("Municipal Engineer"), showing the locations, depth and size of all mains, pipes or conduits and any other equipment or structures (but not including geodetic information) intended to be installed or constructed and shall comply with all by-laws of the Municipality relating to the construction of such works. The Municipality, ~~by its Municipal Engineer, shall~~ shall have the right to designate to the Company the location of the as Distribution System in the Roads within the Municipality and approve the plans as to the location of the Gas Distribution System and any changes thereto arising in course of construction within the Municipality, which approval shall not be unreasonably withheld or unduly delayed. ~~T~~the Gas Distribution System shall be located placed in alleys, lanes and ~~in such locations as agreed by the Municipal Engineer and the Company in~~ boulevards ~~and under other unpaved surfaces~~

rather than in streets when reasonably practicable and where the cost of doing so installation and maintenance will not be unreasonably high.;~~4. Unless another process is established through municipal bylaw, and~~ the Company shall give notice in writing to the ~~CAO or designate of the~~ Municipality, of its intention to ~~open or~~ break up any ~~of the Highways of the Municipality streets or lanes~~ not less than ~~seven (7)~~ three (3) clear days before the beginning of such work, except in cases of emergency ~~arising from defects or breaking of the pipe or other works~~, when immediate notice shall suffice.;~~3.(2)~~ — The Company shall supply ~~to the Municipality~~ complete plans ~~showing the location~~ of its Gas Distribution System ~~with into~~ the Municipality on an as-built basis and will from time to time keep such plans up to date as and when alterations are made., ~~as requested by the Municipality, but in no event shall such plans be provided more than twice in any 12-month period. Such plans shall be provided either on paper or in a mutually agreeable format. All of the conditions for the supply of as-builts are to be mutually agreed upon.~~

~~3.(3) — The pipe, materials and other equipment to be used in the distribution system shall be of the kinds and qualities satisfactory to the Board, and shall be in compliance with The Gas Pipe Line Act (Manitoba) and the regulations thereunder.~~

~~6.(1)~~5 The Company shall protect and indemnify the Municipality against any damages, or expenses, sustained or incurred by the Municipality in connection with the execution of the powers ~~granted~~ hereby granted, and under ~~the Act~~ The Gas Pipe Line Act (Manitoba), and from and against all claims, demands, and actions by third persons in respect of damages sustained by reason of any operations of the Company, and in relation to ~~it~~ the Gas Distribution System. ~~6.(2) — Pursuant to Clause 9 herein,~~ the Company shall satisfy the Public Utilities Board of Manitoba (the "Board") ~~that~~ that it has in place at all times liability insurance coverage sufficient to satisfy any potential claim, demand or action against the Company or the Municipality for such damages.

~~76. (1a) The Municipality agrees that B~~efore the Municipality doing any work on, or ~~makemakings~~ any repairs ~~of~~, or alterations to, any ~~Road or other~~ of its public ~~places, or to any of its utilities, which work, repair or services~~ which will involve excavations or which ~~mayalteration may~~ in any way affect ~~the whole or any part~~ of the ~~Gas Distribution Company's lines, plant or equipment, the Municipality~~System, it shall give ~~the Company not less than seven (7) days' notice in writing specifying the location of such work, repairs or alterations, except in cases where the work, repairs or alterations are required to be done immediately when any prior notice shall suffice. as set forth in the regulations in effect at that time and made pursuant to The Gas Pipe Line Act (Manitoba).~~

~~7.(2b) Where practicable, t~~The Municipality shall have regard to the reasonable directions of the Company concerning ~~any~~ such ~~work,~~ repairs ~~and/or~~ alterations, but, in any event, the Municipality ~~is~~shall be free of ~~all~~ liability ~~to the Company~~ in connection with any ~~injury, death or property~~ damage done by reason of any such ~~work,~~ repairs or alterations, ~~except such injury, death or damage as may be caused by negligence or willful misconduct of the Municipality or its employees, servants, agents or contractors.~~

~~5.(f) 7. (a) a~~All costs in connection with the removal or relocation of any part of the Gas Distribution System, including the cost of repairs to any ~~Highways~~Roads, shall be the Company's responsibility except where such removal or relocation is required by the Municipality; ~~and,~~

~~(gb) Where the Municipality requests notwithstanding paragraph (f) above, where~~ the removal or relocation of any part of the Gas Distribution System is required ~~by the Municipality and, in the opinion of the Company it is practical and convenient to do so, the Company shall effect such removal or relocation as soon as is reasonably possible after such request is made; provided that all costs in connection with such removal or relocation shall be paid by the Municipality including, without limiting the generality of the foregoing;~~ the costs and expenses incurred ~~in the removal and replacement or the relocation shall be as follows:~~

~~(i) the Municipality shall pay to the Company an amount equal to the cost of labour and material required in the original construction of that part of the Gas Distribution System that the Municipality requests to be relocated, less depreciation and the value of any material salvaged~~the cost of repairs to any Road; and

~~(ii) the Company shall bear the entire cost of constructing the required Gas Distribution System infrastructure in the new location~~the net book value plus the cost of replacement, less salvage value, of any part of the removed or relocated Gas Distribution System that is rendered unusable by virtue of such removal or relocation.

8. Natural gas shall be supplied to ~~customers~~consumers in the Territory at the rates and on the terms and conditions approved or fixed from time to time by the Board or other regulatory authority having jurisdiction.

~~119.~~ The Company shall maintain in force during the currency hereof, a policy of insurance provided by an insurance company licensed to do business in the Province of Manitoba, insuring against public liability and property damage in connection with the operations of the Gas Distribution System within the Territory.

~~1210.~~ The Municipality agrees that ~~it~~they will not, for a period of thirty (30) years or longer, if this Agreement is renewed in accordance with the provision of paragraph ~~131~~131 hereof, grant to any other person, firm or corporation the right to deliver natural gas within the ~~franchise area of the~~ Municipality or to erect or maintain a Gas Distribution System in, upon, over, across, ~~under~~, or along its ~~Highways~~Roads ~~within the franchise area~~ for the purpose of supplying ~~and distributing~~ natural gas; provided however that~~9.~~ ~~_____~~ ~~T~~his Agreement paragraph shall not prevent the sale or delivery within the ~~Territory~~

Municipality by any other person, firm or corporation of liquefied petroleum gas, propane or other product delivered in tanks or containers and not transmitted by pipeline.

~~10. Subject to any applicable legislation now or hereafter enacted in that regard, the Company shall pay to the Municipality any taxes that may be legally and properly levied by the Municipality against the Company.~~

~~131.~~(4a) It is further agreed that at the expiration of the term hereof and at the expiration of each renewal hereof, the Municipality may, after giving one (1) year's written notice prior to the date of the termination of this Agreement or of any renewal hereof, at its option (to be expressed by by-law of the Municipality), elect to purchase that portion of the Gas Distribution System with respect to its operations within the Municipality that is used exclusively for the distribution of natural gas in the Territory, pursuant to this Agreement, but not any portion of the Gas Distribution System that is used for transmission of natural gas through the Municipality, for such price and on such terms as may be agreed upon between the parties hereto, or failing such agreement then at such price and on such terms including that portion of the Gas Distribution System the Municipality is entitled to purchase as may be fixed and settled by the Board, or if the Board shall refuse to so fix and settle the price then the said price and terms shall be such as may be fixed and determined by arbitration under the provisions of *The Arbitration Act* (Manitoba) and each of the parties shall appoint an arbitrator and the arbitrators so appointed shall appoint a third arbitrator to act as chairman who shall be versed in this special branch of engineering economics, and in the event the arbitrators appointed by each party are unable to appoint a third arbitrator, the third arbitrator shall be appointed by the Chief Justice of the Court of Queen's Bench of the Province of Manitoba. The decision of the Board or of a majority of the said arbitrators shall ~~be binding upon the parties in arriving at the price. The Board or the said arbitrators shall~~ make allowance for severance of the property and operation from other properties and operations of the Company in Manitoba. In the event of such purchase, the Company and the Municipality will enter into an agreement respecting the use of and payment for

such use by the Municipality of ~~r~~ Company-owned facilities which are not being purchased hereunder and for the sale of natural gas to the Municipality for resale by the Municipality to the inhabitants of the Municipality, at such rates as may be agreed upon between the Company and the Municipality and approved by the Board. If the Municipality does not notify the Company in writing of its intention to purchase the property of the Company as aforesaid at least ~~te~~ one (1) year before the expiration of this Agreement or any renewal thereof, this Agreement will be deemed to be automatically renewed for an additional term of ten (10) years, and at the end of the said ten (10) year renewal term, the said Agreement will be further automatically extended in absence of notice aforesaid for additional terms of ten (10) years from time to time. Provided further that at the time of any such renewal, changes in the terms of this Agreement may be made at the request of either party with the approval of the other, and in the absence of such approval such changes may be made by reference to, under the authority of, and with the approval of the Board. Notwithstanding anything contained else ~~where~~ wherein ~~in~~ this Agreement, it is understood and agreed that if the Municipality exercises its option to purchase the property of the Company with respect to its distribution operations within the area designated in this Agreement, such exercise shall not affect the right of the Company to continue to operate its transmission facilities in such area for so long as the same may be required by the Company.

~~131.~~(2b) The Company agrees that it shall provide written notice to the Municipality at least two ~~(2)~~ years prior to the expiration of the term hereof and of each renewal hereof, of the Municipality's election as set forth in paragraph ~~131.~~(4a) hereof.

~~142.~~ Notwithstanding any other term or condition contained herein, neither party shall be liable to the other for failure to carry out its obligations hereunder when such failure is caused by force majeure as hereinafter defined. The term force majeure means civil disturbances, industrial disturbances (including strikes and lock-outs), interruptions by government or Court orders, present or future valid orders of any regulatory body having proper jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, failure

or inability to secure materials, permits or labourers by reason of priority regulations or orders of government, landslides, lightning, earthquakes, fires, storm, floods, wash-outs, explosions, breakage or accident to machinery or the Gas Distribution System, temporary or permanent failure of gas supply, an act or omission (including failure to deliver gas) reducing supply of gas to the Company's supplier, or any other causes or circumstances to the extent such cause or circumstances was beyond the control of the party prevented from carrying out its obligations by the act of force majeure.

153. Subject to the provisions of *The Public Utilities Board Act* ~~(Manitoba)~~, the Company shall not without the consent of the Municipality, such consent not to be unreasonably withheld, assign this Agreement or the rights, franchises, powers and privileges granted hereby or any of them; provided however the Company may assign this Agreement to any corporation with which the Company may then be associated or affiliated, as those terms are used in *The Corporations Act* (Manitoba) and *The Income Tax Act* (Canada).

164. This Agreement will be binding upon and enure to the benefit of the parties and their successors and assigns.

175. This Agreement is subject to the approval of the Manitoba Public Utilities Board.

IN WITNESS WHEREOF the parties have duly executed this Agreement effective as of the day and year first above written.

RURAL MUNICIPALITY OF _____

Per:

Reeve

Per:

Chief Administrative Officer

CENTRA GAS MANITOBA INC.

Per:

Authorized Signing Officer

Per:

Authorized Signing Officer

CAC/Centra I-7

Reference: Centra Application, Tab 1, page 5, lines 8 - 9

Preamble: The purchase price approximately reflects four years of SVGC's expected net income.

- a) Where does the expected net income of \$200,000 show in the filing, given that Attachment 5.3, page 1 shows losses for the first 4 years?**

ANSWER:

The purchase price was based on the assumption of approximately four years of expected net income for SVGC. This expected net income assumed that SVGC's rates would have been set to fully recover its costs, including a fair return on rate base.

CAC/Centra I-7

Reference: Centra Application, Tab 1, page 5, lines 8 - 9

Preamble: The purchase price approximately reflects four years of SVGC's expected net income.

b) If the response to a) is that the \$200,000 purchase price is based on four times the 2012 Net Income from SVGC as operated by SaskEnergy, please justify using a Net Income amount that will not be attained by Centra going forward, given that Centra will have lower revenues and lower operating margins, yet have similar gas costs and operating costs as SVGC.

ANSWER:

As referenced in SaskEnergy's Application page 2 of 29, "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. The opportunity for the customers of Swan Valley to become customers of the larger and integrated system of Centra would provide a very acceptable transition from both the customer and business perspective".

The purchase of SVGC assets represented an opportunity for Centra to provide natural gas service to Manitobans, which is consistent with Centra's mandate.

The purchase price was negotiated between two arms-length parties, who agreed that \$200,000 was the fair price for the assets of SVGC.

CAC/Centra I-8

Reference: Centra Application, Tab 3, page 10, lines 19 – 21

What are the impacts of Centra assuming SVGC's responsibilities in the Municipal Funding Agreement?

ANSWER:

Pursuant to Article 4 of the Municipal Funding Agreement, if the proposed transaction is approved, Centra's only responsibility will be for continued operation and management of the transmission and distribution system in accordance with applicable legislative and regulatory requirements.

CAC/Centra I-9

Reference: Centra Application, Tab 4, page 3, lines 11 - 16

Preamble: The identifiable assets acquired will be measured at their fair values at acquisition.

a) Define “fair value”.

ANSWER:

Centra used the definition of fair value as defined in the Canadian Institute of Chartered Accountants Handbook, Section 1582 Business combinations, fair value is “the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.” Further, Appendix A of IFRS 3 Business combinations defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” In terms of the acquisition of SVGC by Centra, the \$200,000 represents the amount of consideration agreed upon between Centra and SaskEnergy.

CAC/Centra I-9

Reference: Centra Application, Tab 4, page 3, lines 11 - 16

Preamble: The identifiable assets acquired will be measured at their fair values at acquisition.

b) What is this estimated amount?

ANSWER:

Please see Centra's response to PUB/Centra I-13(a) for the values to be assigned to the assets upon acquisition.

CAC/Centra I-9

Reference: Centra Application, Tab 4, page 3, lines 11 - 16

Preamble: The identifiable assets acquired will be measured at their fair values at acquisition.

c) If it is greater than the price paid, what will be the impact on rates?

ANSWER:

Please see Centra's response to CAC/Centra I-9(a) for the definition of fair value. Based on this definition, the purchase price equals the fair value of the assets.

CAC/Centra I-9

Reference: Centra Application, Tab 4, page 3, lines 11 - 16

Preamble: The identifiable assets acquired will be measured at their fair values at acquisition.

- d) Please re-file all relevant schedules, including the 50 year revenue requirement impact requested in CAC/Centra 4(c) showing the impact of using “fair values” on the feasibility, assuming that these will be the amounts that are included in Centra’s rate base and used to set rates.**

ANSWER:

Please see Centra’s response to CAC/Centra I-9(c).

CAC/Centra I-10

Reference: Centra Application, Tab 4, page 4, lines 2 – 5

- a) **Does Centra have a tax “opinion” on the RST tax payable, given that assets purchased will be measured, and presumably recorded on Centra’s books, at their “fair values”?**

ANSWER:

Centra has not requested a tax ruling from Manitoba Finance with respect to this transaction given that the assets purchased are of a type frequently purchased by the company and the RST treatment is known.

The Retail Sales Tax Act requires that RST be calculated based on the “purchase price” which in this case is the amount stated in the Asset Purchase Agreement. Accounting treatment has no impact on the determination of RST.

CAC/Centra I-10

Reference: Centra Application, Tab 4, page 4, lines 2 – 5

- b) i) If the assets are recorded in Centra’s Financial Statement at a higher amount than the purchase price, is Centra liable for a higher RST tax payable?**
- ii) If so, what will the RST tax payable be?**

ANSWER:

The RST will be calculated based on the “purchase price”, which is defined in *The Retail Sales Tax Act* as the value “accepted by the seller as the price of the tangible personal property that is the subject of a sale”.

In accordance with the allocation of purchase price contained in the Asset Purchase Agreement (Schedule 1), the RST tax payable amount will be \$15,001. This amount is determined by applying the current 8% RST rate to the \$187,517 portion of the purchase price relating to taxable components of the sale agreement which are the services, meter & regulator installations, mains, measuring & regulatory equipment and meters. Line pack is not subject to RST because it is purchased for resale purposes and land rights are an intangible relating to real property that are also not subject to RST.

CAC/Centra I-11

Reference: MIPL Charges

As all of the original agreements for the Swan Valley project involved SaskEnergy, or Companies subsidiary to, or affiliated with SaskEnergy, and thus, can be considered non arms-length agreements, what due diligence has Centra completed to ensure Centra ratepayers are protected from clauses, within all agreements related to SVGC, which may impact them in the future? E.g. Potential future Inter-company charges from TransGas to MIPL.

ANSWER:

Please see Centra's response to CAC/Centra I-5(c).

CAC/Centra I-12

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 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.

- a) What is the average cost of gas (per GJ sold), including all transportation costs, to serve SVGC customers compared to the average cost per GJ to serve customers in Centras existing Franchise areas?**

ANSWER:

Based on an updated November 1, 2013 futures price strip:

Former SVGC Forecast Average COG Sold Including Transportation Costs = \$4.88/GJ

Existing Franchise Areas Forecast Avg. COG Sold Incl. Transportation Costs = \$4.32/GJ

CAC/Centra I-12

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 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.

- b) i) The 6 inch steel transmission line constructed by MIPL was designed primarily in order to serve the Louisiana Pacific (LP) load. Now that LP is not using natural gas, and the significant charges for MIPL carry on under this proposal, how will these charges be accounted for in Centras cost allocation model?**
- ii) Which class will carry the burden of these costs?**

ANSWER:

Centra intends to roll the \$57,000 of MIPL transportation charges into its approximate \$50 million of annual transportation related costs. These costs will be treated consistent with the current cost allocation approach which is to functionalize to the Pipeline function, classify as either volume or demand related and allocate to all customer classes on the basis of volume or the peak and average allocator.

SVGC is no longer required to pay the majority of the costs of the transmission line constructed by MIPL to serve SVGC, the capacity of which was based largely on the 2014 01 17

anticipated load requirements of Louisiana Pacific at the time of its construction. After the loss of the Louisiana Pacific Load, in order to maintain the economic viability of that portion of the MIPL system dedicated to serving SVGC, MIPL applied to the National Energy Board (“NEB”) in 2010 for approval to reallocate \$384,000, or approximately 88%, of SVGC’s annual MIPL revenue requirement to all other shippers on the MIPL system. In a letter to the NEB dated March 19, 2010, MIPL further clarified its rationale for the requested cost reallocation as follows:

“.....the anchor industrial customer downstream from the Swan Valley Pipeline has shed their contract demand for 2010. This industrial customer represented 87.7% of the historic service on this line. It was inappropriate and counter productive to burden the other customers on this specific line with the unabsorbed revenue requirement resulting from this occurrence. The proportion of the Revenue Requirement which would have been associated with the industrial customer was reallocated to all MIPL shippers, including those remaining customers on the Swan Valley Pipeline, again on the basis of each pipeline’s preliminary allocation of Revenue Requirement.”

The NEB subsequently approved MIPL’s application. This cost reallocation will continue in future years unless Louisiana Pacific’s load were to return to the SVGC system.

All customer classes will receive some share of these transportation costs, the majority is borne by the SGS and LGS customer classes as these classes are the largest users of the transportation service. Given the MIPL transportation costs represent approximately 0.1% of the total annual transportation costs; the impact to customers is expected to be negligible.