

CENTRA GAS MANITOBA INC.

**ACQUISITION OF THE ASSETS OF
SWAN VALLEY GAS CORPORATION**

**IMPACT OF THE PROPOSED TRANSACTION ON THE
PROVISION OF SAFE & RELIABLE SERVICE**

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1 **3.0 Introduction**

2 Tab 3 discusses the impact the proposed transaction will have on the provision of safe
3 and reliable utility services. In summary, Centra intends to fully integrate the operations
4 of SVGC with those of Centra and to provide SVGC customers with the same safe,
5 reliable and economical service that it provides to its existing customers. This will serve
6 to provide immediate benefits to SVGC's customers in the form of lower rates and
7 access to additional customer service programs.

8

9 This Tab also discusses the impact of the proposed transaction on the existing contracts
10 of SVGC and on competition in the natural gas industry in Manitoba.

11

12 **3.1 Transition Plan**

13 This section provides a summary of the transition plan for the financial and operational
14 integration of SVGC by Centra. If the proposed transaction is approved, it is Centra's
15 intention to integrate the assets and operations of SVGC with those of Centra
16 immediately after the effective date of the transaction.

17

18 System integrity is an important factor of the safe and reliable operation of the
19 distribution system. Centra completed an internal technical evaluation of SVGC as part
20 of its due diligence procedures, as discussed in Tab 4 of the Application. A copy of the

1 Technical Evaluation of Swan Valley Gas Corporation Natural Gas Transmission and
2 Distribution System report is included as Attachment 3.1 to Tab 3. The evaluation found
3 that the SVGC transmission and distribution system was constructed and has been
4 operated in accordance with all applicable codes and regulations and no major technical
5 issues were identified. The material used and standards of construction are similar to
6 that employed by Centra and there are no major difficulties in incorporating these assets
7 into Centra's operations.

8

9 Centra's technical evaluation identified minor issues that will need to be addressed.
10 These issues include the low throughput on the SVGC distribution system, which may
11 cause issues with odorant carry and the odorant levels. In addition, there are a number
12 of suspended services in the SVGC franchise area that are candidates for
13 abandonment. These and some other minor issues identified in the technical evaluation
14 will be addressed and can be reasonably managed within Centra's operations.

15

16 Centra also completed an environmental review of SVGC. A copy of the Environmental
17 Evaluation of the Swan Valley Gas Corporation Gas Transmission and Distribution
18 System is included as Attachment 3.2 to Tab 3. The review found no indications of any
19 significant source of potential environmental liability and that historical and current
20 activities conducted at the sites have a low potential for creating any significant
21 environmental impacts. Centra has identified some moderate to low environmental
22 concerns that will be addressed and these issues can reasonably be managed within
23 Centra's operations.

24

1 Although the technical evaluation and environmental review reports of SVGC both note
2 that a depth of cover survey had not been completed at the time of each reports
3 preparation, SaskEnergy has since conducted a depth of cover survey (including water
4 course crossings) and provided a copy to Centra.

5

6 Since the SVGC system is not interconnected with the existing Centra distribution
7 system in Manitoba, along with the fact that Centra holds no upstream transportation
8 and/or storage assets that can serve the SVGC system, natural gas will continue to be
9 purchased from SaskEnergy and delivered to SVGC through the TransGas Limited
10 (“TransGas”) and Many Islands Pipelines (Canada) Limited (“MIPL”) systems. TranGas
11 is the intra-Saskatchewan natural gas transmission system. MIPL is the inter-provincial
12 pipeline system that crosses the Saskatchewan/Manitoba border and interconnects with
13 the SVGC system. Both TransGas and MIPL are wholly-owned subsidiaries of
14 SaskEnergy.

15

16 Centra and SaskEnergy have negotiated a Gas Management Agreement-in-principle,
17 which the parties have documented in a North American Energy Standards Board
18 (NAESB) base contract document and associated transaction confirmation. The
19 transaction confirmation is subject to PUB approval of the proposed acquisition.

20

21 Centra is not seeking approval of the Gas Management Agreement from the PUB.
22 Centra will seek approval of the gas cost consequences arising from this Agreement in
23 future rate applications.

24

1 The Gas Management Agreement-in-principle reflects a five-year contract for the
2 sourcing, acquisition, nomination and balancing of all gas commodity requirements for
3 SVGC by SaskEnergy. These commodity supplies will be indexed to a published AECO
4 market index price that will be determined monthly, plus an AECO to TEP (the intra-
5 Saskatchewan TransGas Energy Pool) market basis differential to be determined
6 annually. Added to the foregoing will be a gas management fee on all commodity
7 supplies provided to SVGC by SaskEnergy to be fixed for the five-year term at a level
8 equal to that currently being paid by SVGC to SaskEnergy under its existing gas
9 management package agreement. In addition, SaskEnergy will hold contracts for firm
10 upstream transportation capacity on both TransGas from TEP to MIPL and on MIPL from
11 the TransGas/MIPL interconnect to the SVGC gate station of 523 GJ/day and pass the
12 resulting costs directly through to Centra with no profit or markup. The Gas Management
13 Agreement-in-principle specifies a five-year initial contract term, with evergreening
14 annual renewal provisions each year thereafter. If either party does not intend to
15 continue the agreement after the initial 5-year term, notice of those intentions must be
16 provided a minimum of one-year in advance.

17

18 A purchased gas cost forecast for SVGC for the 2013/14 Gas Year, reflecting the terms
19 of the Gas Management Agreement-in-principle described above, based on AECO
20 futures market prices as at September 1, 2013, is provided in Attachment 3.3 to Tab 3.

21

22 An Emergency Services Agreement between Centra and SaskEnergy is also in the
23 process of being finalized. The Emergency Services Agreement defines the terms
24 related to Centra's retention of SaskEnergy to provide certain emergency response
25 services to over or under pressurization at the gate/regulation stations, as well as safety

1 services and minor repairs as required related to the natural gas transmission and
2 distribution assets to be acquired by Centra in the SVGC service areas. Centra will pay
3 SaskEnergy an annual retainer of \$1000, as well as reimburse SaskEnergy for all
4 reasonable expenses incurred in providing necessary emergency services.

5

6 An integration team consisting of Manitoba Hydro customer service staff has been
7 established and is working with SVGC representatives to manage the addition of SVGC
8 customers to Centra's billing system.

9

10 SVGC operations will be financed by Centra, consistent with other Centra natural gas
11 operations.

12

13 **3.2 Customer Information Process**

14 Centra will notify SVGC's customers of the acquisition of SVGC's assets upon PUB
15 approval of the sale. Centra intends to send a direct mailer to customers in the SVGC
16 territory to inform them of Centra's services, rates, policies and procedures.

17

18 **3.3 Service Quality**

19 This section identifies all service quality safeguards that are included in the proposed
20 transaction. Centra is committed to the safe, reliable, and efficient operation of the
21 distribution system. Centra intends to operate SVGC's distribution system in accordance
22 with existing provincial standards and regulations and Centra's standards and
23 procedures.

24

25 Customers in the SVGC service areas will be provided similar services as are afforded

1 to Centra's existing customers in accordance with Centra's Terms and Conditions of
2 Service. Centra will provide services to customers in the SVGC service areas that
3 Centra's existing customers receive; however, certain services may be performed by
4 SaskEnergy as outlined in the Emergency Response Service Agreement. As a result of
5 being afforded the same services that Centra's existing customers receive, customers in
6 the SVGC service areas will see the following changes in service:

7

8 Western Transportation Services ("WTS")

9 SVGC customers will have the option of fixing their Primary Gas rate, either by
10 contracting with a natural gas marketer under the WTS, or with Centra under the Fixed
11 Rate Primary Gas Service, if they conclude that it is beneficial to do so. This option is not
12 currently available to SVGC's customers.

13

14 Customer Service Features

15 Centra provides as part of its basic services, the Customer Equipment Problem
16 Program, which is a no charge labour service for problems with natural gas equipment.
17 This service is available to customers who experience a problem with their primary
18 space and water heating appliances and gas ranges, and is available to all residential
19 and small commercial natural gas customers.

20

21 Financing Options

22 Manitoba Hydro provides financing through its Customer Contribution Time Payment
23 Plan as an alternative to cash payment for any contribution required for new natural gas
24 service installations and yard piping costs. Commercial and residential customers are
25 able to participate in this program up to a maximum loan amount of \$10,000.

1 Manitoba Hydro offers residential and commercial customers on-bill financing through
2 the Power Smart Pay As You Save (“PAYS”) Program, to finance the cost of completing
3 energy efficient upgrades. PAYS Financing allows customers to use their estimated
4 annual utility savings gained from installing energy efficient measures, such as a high-
5 efficiency natural gas furnace or attic insulation, to pay for those measures. The monthly
6 payment is added to the customer’s energy bill. In many cases, the cost of converting
7 from an electric heating system to a high efficiency natural gas furnace can be fully
8 financed through Power Smart PAYS.

9

10 The Power Smart Residential Loan Program is also available to finance the cost of
11 energy efficient upgrades. The loan offers residential customers financing of up to \$7500
12 for window and door upgrades, space heating equipment, insulation, air leakage sealing,
13 ventilation and water heating equipment.

14

15 Also, Manitoba Hydro offers loans of up to \$5,000 through its Energy Finance Plan to
16 finance the purchase and installation of natural gas improvements. This includes
17 offering loans for natural gas furnaces, water heaters, direct venting fireplaces,
18 combination heating systems and the related piping, venting and ductwork.

19

20 Equal Payment Plan

21 Manitoba Hydro provides customers with the option to pay equal monthly instalments for
22 their natural gas or electric bills by signing up for the Equal Payment Plan (“EPP”).

23 Manitoba Hydro projects customers energy costs for the upcoming months of the EPP
24 year and divide that into equal monthly instalments. Any surplus or deficit is refunded or
25 paid at the conclusion of the EPP year.

1 Combined Electricity and Natural Gas Bill

2 SVGC customers will no longer receive a separate natural gas bill. Customers will
3 receive their natural gas charges on the same billing statement as their electricity
4 charges.

5

6 Demand Side Management

7 The Corporation's Demand Side Management ("DSM") initiative, "Power Smart" consists
8 of energy conservation and load management activities designed to lower the demand
9 for electricity and natural gas in Manitoba. DSM initiatives are designed to assist
10 customers in using energy more efficiently and reducing their energy bills.

11

12 A number of energy conservation initiatives currently offered to residential customers
13 include, but are not limited to, the Home Insulation Program, the Water & Energy Saver
14 Program, and the Lower Income Energy Efficiency Program. In addition,
15 commercial/industrial SVGC customers will have the opportunity to participate in a
16 number of energy conservation initiatives, such as, the Commercial HVAC Program, the
17 Building Envelope Program, the Commercial Building Optimization Program, the
18 Commercial Kitchen Appliances Program and the Industrial Natural Gas Optimization
19 Program.

20

21 **3.4 Existing Contracts**

22 The following are the existing contracts that are impacted by the proposed transaction.

23

24 TransGas Service Agreement

25 Made between TransGas and SVGC, dated the first day of March, 2000. Upon approval

1 of the proposed transaction, SaskEnergy will take assignment of this contract as per the
2 terms of the Gas Management Agreement-in-principle.

3

4 MIPL Service Agreement

5 Made between MIPL and SVGC, dated the 20th day of December, 2000. Upon approval
6 of the proposed transaction, SaskEnergy will also take assignment of this contract as per
7 the terms of the Gas Management Agreement-in-principle.

8

9 Natural Gas Package Agreement

10 Made between SVGC and SaskEnergy, dated the 1st day of June, 2003. This agreement
11 will be replaced by the Gas Management Agreement negotiated between Centra and
12 SaskEnergy, as discussed above.

13

14 Franchise Agreements

15 Upon approval of the proposed transaction and subject to receiving consents from the
16 communities, the franchise agreements between SVGC and the RM of Swan River, the
17 RM of Minitonas, the Town of Swan River, the Town of Minitonas and the Village of
18 Benito will be assigned to Centra. Copies of the existing franchise agreements between
19 SVGC and the communities are provided as an attachment to SVGC's application.

20

21 Following approval of the proposed transaction, Centra will advise the communities that
22 they have the option to enter into a new franchise agreement with Centra in the form of
23 the Generic Franchise Agreement, which will be subject to approval by the PUB.

24

25

1 Conveyance and Assignment of Interests in Real Property

2 It is a term of the Asset Purchase Agreement that all interests in real property used in
3 connection with the business of SVGC, including all real property owned by SVGC, all
4 required rights-of-way, easements, permits and any other agreements whatsoever, shall
5 be conveyed to Centra on the closing of the transaction.

6

7 Copies of the Asset List, as well as the Asset Purchase Agreement are included as
8 attachments to SVGC's application.

9

10 Meter Reading

11 In 2008, Manitoba Hydro Utility Services ("MHUS") entered into a meter reading
12 agreement with SVGC. If the proposed transaction is approved, MHUS will continue to
13 read customer natural gas meters in the SVGC service area.

14

15 Project Funding Agreement

16 A Municipal Funding Agreement was made between Swan Valley and the Rural
17 Municipality of Swan River, the Rural Municipality of Minitonas, the Town of Swan River,
18 the Town of Minitonas and the Village of Benito dated the 4th day of May, 2000. Upon
19 approval of the proposed transaction, Centra will assume SVGC's responsibilities
20 contained within that agreement. A copy of the Municipal Funding Agreement is included
21 as Attachment 3.4 to Tab 3.

22

23 Centra will not assume the Canada-Manitoba Economic Partnership Development
24 Agreement and Rural Economic Development Initiative Infrastructure Development
25 Program Funding Agreement made between the Government of Manitoba and SVGC

1 dated December 1, 2000.

2

3 **3.5 Effect of the Proposed Transaction on Competition**

4 This section provides a summary of the effect of the proposed transaction on
5 competition in the Manitoba natural gas industry.

6

7 With the proposed transaction Centra will be the sole natural gas distributor in Manitoba.

8 Centra believes that there will not be any significant impact on competition in the natural
9 gas industry in Manitoba as a result of the proposed transaction. Presently, both Centra
10 and SVGC provide gas distribution services to their respective franchise areas and do
11 not compete with each other in that regard. This transaction does not affect the existing
12 franchise granting and approval process in any way. Given these facts and the relatively
13 small number of customers (less than 250) involved in relation to the total number of gas
14 customers in Manitoba, there is minimal impact on competition in the natural gas
15 industry in Manitoba.

16

17 If the proposed transaction is approved, SVGC customers will have the option of fixing
18 their Primary Gas rate, either by contracting with a natural gas marketer under the
19 Western Transportation Service, or with Centra under the Fixed Rate Primary Gas
20 Service, if they conclude that it is beneficial to do so. This option is not currently
21 available to SVGC's customers, and as such, will serve to enhance competition in the
22 SVGC service territory.