

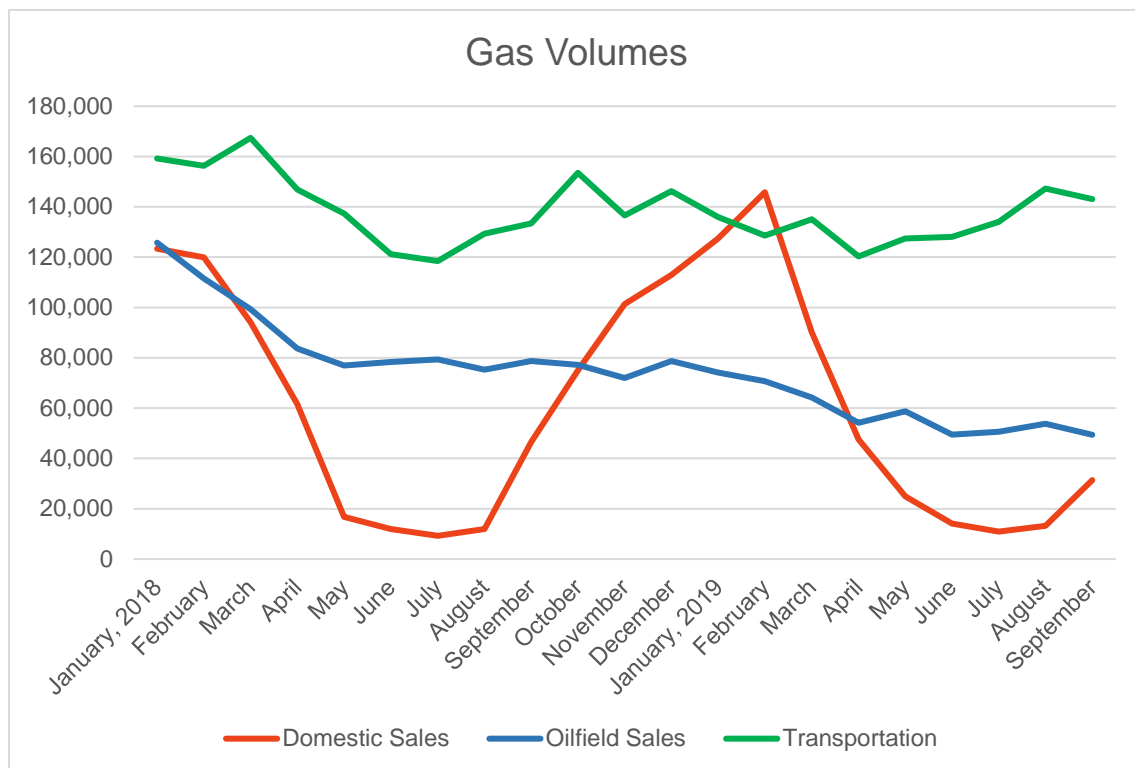


Natural Gas Utility Quarterly Report Q3 2019

Cumulative Gas Volumes

- Domestic sales volumes up 20% from 2018
- Oilfield sales volumes down 35%
- Total sales volumes down 17%
- Transportation volumes flat
- Cumulative Gas Loss is 1.35%

Loss of oilfield sales volumes due to shut down of several high use facilities and numerous wells has significantly impacted our gas sales. Cold temperatures in Q1 and grain drying will offset the loss to an extent. However, we expect the total impact to the budgeted sales revenue to be -10%. Due to numerous projects to install systems for excess gas gathering transportation volumes are holding steady and are expected to increase even in light of the continuing oilfield economic slowdown. We are hopeful that several major new transportation accounts will be connected in Q4.



Industrial - Residential – System Construction

- Construction and Projects remain busy with projects scheduled until freeze up and several potential winter construction projects at the estimate stage.
- Gas Shop Addition/Renovation project has begun with award of the contract (Bexson Construction), design and permitting.

Completed Projects

- County of Two Hills / AltaGas project
- Tap 50-52-102 Link is complete and final tie-in to Section 28 Battery is complete. Project is awaiting pressure protection equipment (by CNRL) at Section 28 Battery.
- Several small CNRL tie-ins in the Elk Point area
- Construction of 2 RMO Stations for MINCO Gas Co-op
- 4 Grain Dryer Services
- Tap 10-20 South Loop Phase I
- Gear/Rife Morgan Gathering System
- Husky Vermilion Gathering System
- Musgrave SW Lloydminster Development Steel Pipeline Reroute
- 1 of 2 CNRL Tulliby Lake Crown Land Projects
- 7 Residential Infills

Projects in Progress

- 6 Residential Infills and 1 Grain Dryer
- PV Pork Upgrade
- Tap 10-20 low pressure loop to accommodate TWP Rd 490 Construction
- CNRL Tulliby Lake Crown Land Project
- Tap 10 rebuild due to ground movement
- Smoky Lake RMO Design/Construction
- Husky Capoffs
- Kehewin Water Treatment Plant Gas Supply
- Kehewin System Upgrades
- Husky Marwayne Battery Excess Gas Supply
- Dewberry Loop Line
- Silver Willow Line Replacement
- PVDF Pilot Project
- Tap 40 Odorizer
- Tap 40 Reconstruction
- Tap 20-40 Connection Valve Automation
- SCADA Upgrades

Operations

- Regulating Station lockup, relief, and general inspections are in progress.
- Yard and public building inspections are complete. Block valve inspections are in progress.
- Meter change-outs are in progress with 70% of the 795 schedule meter replacements complete. We are behind schedule largely due to unavailability of timely meter recertification. We have begun to regularly utilize ATCO's meter shop to enable us to complete our required meter changes.
- Full third party Cathodic review has been completed and we are working through the recommendations and have completed a majority of remedial work.

- Regulating Station / Block Valve Signage are being updated to current CSA Z662 requirement.
- Pressure changes and system adjustments to accommodate grain drying operations' are ongoing.
- Working through system reviews and settings with new personnel working for industrial customers.
- Assisting the County with maintenance and operation of Emergency Communications Towers.
- Completing 5-7 service calls per week (Gas odor, CO2, Appliance issues).
- Processing 7-10 line locate requests/working day.
- Processing 1-2 crossing and proximity requests/working day.

Environmental Protection / Innovation

- Funding has been approved under the Natural Resources Canada – Alternative Refueling Infrastructure grant program for our Natural Gas Refueling Station. Work is underway on planning, design and procurement of equipment.
- We were unsuccessful in our application for numerous methane reduction projects under the Environment and Climate Change Canada – Low Carbon Economy grant program. The reason given for denial of our application was that “Upstream emissions reductions from captured methane are not eligible reductions” under this funding program.
- Power Generation scoping study under the Energy Efficiency Alberta program is in progress. The initial findings on natural gas power generation at the County operations yard have been presented to Management. We are continuing to work with our contractor to find viable options for the County and our residents/businesses to utilize natural gas to offset grid electricity and grid generation.
- Working with Husky on a potential comprehensive gas gathering solution allowing Husky to maximize production of heavy oil wells with high volumes of excess methane by gathering gas to central compressor locations and use at current and proposed Husky locations requiring gas for heat, motors and steam.
- Working with Kehewin Cree Nation on a potential project to provide them with a plan and assistance with setting up proper self-management of their Gas Utility.

Financial Highlights

- Residential Gas Sales Margins are 20% above target with that trend projected to continue through Q4 due partially to grain drying.
- Industrial Sales Margins are 35% below target and steady. This is attributable largely due to loss of sales volumes at several large oilfield accounts (CNRL Christopher Lake, NewAlta/Tervita, Devon).
- Transportation Revenue is in line with projections and increasing due to new gas gathering projects.
- Industrial Project Revenue is in line with projections through Q3. We are awaiting approval on several projects to carry construction through to year-end and into 2020.
- Secondary Gas Services Revenue is projected to be approximately 20% above target.
- Operational Expenses are on budget.
- Gas Utility staff is preparing the 2020 Natural Gas Utility Budget for presentation in November.

County of Vermilion River
Gas Utility

	2019 Residential Actual	2019 Industrial Actual	2019 Consolidated Actual	2019 Consolidated Budget	Budget Variance
<u>Sale of Gas - Margins</u>					
1 Gas Sales Residential (Gigajoules)	\$ (641,814)		\$ (641,814)	\$ (885,499)	\$ 243,685
2 Gas Sales Industrial (Gigajoules)		\$ (354,313)	\$ (354,313)	\$ (657,263)	\$ 302,950
3 Transportation (Gigajoules)		\$ (482,008)	\$ (482,008)	\$ (666,508)	\$ 184,500
4 Excess Gas Tariffs		\$ (36,026)	\$ (36,026)	\$ (119,600)	\$ 83,574
5 Total Gross Margin (Gas Sales less Purchases)	\$ (641,814)	\$ (872,347)	\$ (1,514,162)	\$ (2,328,870)	\$ 814,709
<u>Service Charges</u>					
5 Residential	\$ (855,756)		\$ (855,756)	\$ (1,135,000)	\$ 279,244
6 Industrial - Standard		\$ (266,778)	\$ (266,778)	\$ (375,900)	\$ 109,122
7 Sale of Gas & Service Charges Revenue Available for operations	\$ (1,497,570)	\$ (1,139,125)	\$ (2,636,695)	\$ (3,839,770)	\$ 1,203,075
8 Income (Reserve Trsf, Sale of Fixed Assets, Misc)	\$ (20,386)	\$ (20,386)	\$ (40,771)	\$ (194,000)	\$ 153,229
<u>Operational Expenditures</u>					
9 General Operations & Maintenance	\$ 875,547	\$ 860,644	\$ 1,736,191	\$ 2,161,000	\$ (424,809)
10 Leak Detection/Yard Inspection	\$ 25,773	\$ 6,100	\$ 31,873	\$ 87,000	\$ (55,127)
11 Meter Program	\$ 82,487	\$ 5,336	\$ 87,823	\$ 120,475	\$ (32,652)
12 Cathodic Protection	\$ 35,669	\$ 9,724	\$ 45,393	\$ 64,850	\$ (19,457)
13 Line Locating	\$ 17,235	\$ 109,884	\$ 127,118	\$ 225,250	\$ (98,132)
14 Shops	\$ 7,782	\$ 7,855	\$ 15,637	\$ 28,000	\$ (12,363)
15 Safety	\$ 30,447	\$ 30,447	\$ 60,894	\$ 90,500	\$ (29,606)
16 Subtotal Operational Expenditures	\$ 1,074,941	\$ 1,029,990	\$ 2,104,931	\$ 2,777,075	\$ (672,144)
17 (Profit) Loss from Operations	\$ (443,015)	\$ (129,521)	\$ (572,536)	\$ (1,256,695)	\$ 684,159
18 Amortization/Gain or Loss on Sale of Fixed Assets	\$ -	\$ -	\$ -	\$ 1,250,000	\$ (1,250,000)
<u>PSAB 3150 Adjustments</u>					
19 Reverse Amortization	\$ -	\$ -	\$ -	\$ (1,250,000)	\$ 1,250,000
20 Drawn from Reserves	\$ -	\$ -	\$ -	\$ (482,000)	\$ 482,000
21 Contributed to Equip & Facility Reserves	\$ -	\$ -	\$ -	\$ 195,000	\$ (195,000)
22 Interest Added to Reserves	\$ -	\$ -	\$ -	\$ 120,000	\$ (120,000)
23 Contributed to Project Reserve from Industrial Project Profit*	\$ -	\$ -	\$ -	\$ 247,000	\$ (247,000)
24 Contributed to Project Reserve from Operational Profit	\$ -	\$ -	\$ -	\$ 753,000	\$ (753,000)
25 Grants	\$ (5,948)	\$ (5,948)	\$ (11,896)	\$ (780,000)	\$ 768,104
26 Sale of Fixed Assets	\$ (28,248)	\$ (28,248)	\$ (56,495)	\$ (84,500)	\$ 28,005
27 Fixed Assets Mach & Equip	\$ 55,229	\$ 55,229	\$ 110,458	\$ 140,000	\$ (29,542)
28 Fixed Assets Vehicles	\$ 20,109	\$ 20,109	\$ 40,218	\$ 68,000	\$ (27,782)
29 Fixed Assets Buildings	\$ -	\$ -	\$ -	\$ -	\$ -
30 Fixed Assets Infrastructure	\$ 144,560	\$ 144,560	\$ 289,121	\$ 1,262,000	\$ (972,879)
31 Net Profit on Industrial Projects/Infills	\$ 95,533	\$ 95,533	\$ 191,066	\$ (247,000)	\$ 438,066
32 Subtotal Adjustments	\$ 281,236	\$ 281,236	\$ 562,473	\$ (58,500)	\$ 620,973
33 (Profit) Loss After Adjustments	\$ (161,779)	\$ 151,715	\$ (10,063)	\$ (65,195)	\$ 55,132
* Industrial Project Profit flows 100% through Industrial Budget to Project Reserve					
<u>Additional Revenue Streams</u>					
34 Net Profit on Service Calls			\$ (1,692)	\$ 850	\$ (2,542)
35 Net Profit on Sale of Goods			\$ (16,381)	\$ (9,000)	\$ (7,381)
36 Secondary Installations & Heaters			\$ (53,896)	\$ (36,000)	\$ (17,896)
37 Net from Revenue Streams			\$ (71,968)	\$ (44,150)	\$ (27,818)
38 Total (Profit) Loss			\$ (82,032)	\$ (109,345)	\$ 27,314

Segmented Expenditure Breakdown

	<u>2019 Actuals</u>	<u>Budget</u>	<u>2018 Actuals</u>
	<u>To Date</u>		<u>To Date</u>
1 Operational			
2 Labour Costs	\$ 1,506,162	\$ 1,749,575	\$ 1,545,200
3 Purchased/Contract Services	\$ 342,589	\$ 627,000	\$ 293,127
4 Materials & Supplies*	\$ 228,881	\$ 310,000	\$ 219,831
5 Other	\$ 27,298	\$ 90,500	\$ 75,824
6 Subtotal	\$ 2,104,931	\$ 2,777,075	\$ 2,133,981
7			
8 Billable Services (Non-Capital)			
9 Labour Costs	\$ 60,234	\$ 111,000	\$ 69,330
10 Purchased/Contract Services	\$ 66,015	\$ 24,000	\$ 26,372
11 Materials & Supplies	\$ 11,332	\$ 45,350	\$ 8,090
12 Other	\$ 12,409	\$ 10,500	\$ -
13 Subtotal	\$ 149,990	\$ 190,850	\$ 103,791
14			
15 Internal Capital Projects			
16 <i>(Funded from Reserve)</i>			
17 Labour Costs	\$ 46,451	\$ -	\$ 11,953
18 Purchased/Contract Services	\$ 169,017	\$ 130,195	\$ 88,638
19 Materials & Supplies	\$ 73,985	\$ 300,000	\$ 199,330
20 Other	\$ -	\$ -	\$ -
21 Subtotal	\$ 289,453	\$ 430,195	\$ 299,920
22			
23 Infills & Industrial Projects			
24 <i>(Billable)</i>			
25 Labour Costs	\$ 228,291	\$ 408,000	\$ 112,040
26 Purchased/Contract Services	\$ 234,974	\$ 400,000	\$ 164,741
27 Materials & Supplies	\$ 266,909	\$ 200,000	\$ 8,664
28 Other	\$ 37,500	\$ 120,000	\$ 56,250
29 Subtotal	\$ 767,674	\$ 1,128,000	\$ 341,694
30			
31 Total Expense by Segment	2019 Actual	2019 Budget	2018 Actual
32 Labour Costs	\$ 1,841,138	\$ 2,268,575	\$ 1,738,522
33 Purchased/Contract Services	\$ 812,595	\$ 1,181,195	\$ 572,877
34 Materials & Supplies*	\$ 581,107	\$ 855,350	\$ 435,914
35 Other**	\$ 77,207	\$ 651,195	\$ 132,074
36 Total	\$ 3,312,047	\$ 4,956,315	\$ 2,879,387

37 *Excludes purchase of Gas for resale

Capital Projects Summary

Billable Capital Project Summaries

	Revenue	Expenditures	Net (Profit) Loss to Date
Completed Projects			
1 TWO HILLS 68-002	\$ (286,473)	\$ 288,162	\$ 1,689
2 CNRL 72-081	\$ (70,979)	\$ 16,412	\$ (54,566)
3 GEAR 87-007	\$ -	\$ 3,103	\$ 3,103
4 GEAR 87-011	\$ -	\$ 282	\$ 282
5 MINCO RMO'S 68-003	\$ (89,057)	\$ 65,300	\$ (23,757)
6 GEAR/RIFE 87-012	\$ (65,846)	\$ 40,635	\$ (25,211)
7 CNRL 72-077	\$ -	\$ 325	\$ 325
8			
9			
10 Subtotal	\$ (512,355)	\$ 414,219	\$ (98,136)
11			
Projects in Progress			
13 HUSKY 78-038	\$ -	\$ 474	\$ 474
14 HUSKY 78-039	\$ -	\$ 71,521	\$ 71,521
15 CNRL 72-078	\$ 6,570	\$ 9,214	\$ 15,784
16 CNRL 72-079	\$ -	\$ -	\$ -
17 CNRL 72-080	\$ 158	\$ -	\$ 158
18 CNRL 72-082	\$ -	\$ 3,538	\$ 3,538
19 SMOKY LAKE RMO 68-004	\$ -	\$ 66,964	\$ 66,964
20 KEHEWIN 68-005	\$ -	\$ 27,164	\$ 27,164
21 MUSGRAVE 68-006	\$ -	\$ 15,627	\$ 15,627
22			
23 Subtotal	\$ 6,728	\$ 194,502	\$ 201,230
24			
25 Infills	\$ (71,313)	\$ 70,422	\$ (890)
26			
27 Legislative and Admin Recovery	\$ -	\$ 37,500	\$ 37,500
28			
29 General, Investigation, Other	\$ (0)	\$ 51,362	\$ 51,362
30			
31 Subtotal Industrial Projects and Infills	\$ (576,939)	\$ 768,006	\$ 191,066
32			
33			

Capital Projects Summary

34 Infrastructure Project Summaries

	Revenue / Reserve		Expenditures	Net (Profit) Loss	
	Withdrawal			to Date	Budget
35					
36 Internal Capital Projects					
37 (Funded from Reserve)					
38 SCADA 95-08	\$ -	\$	39,540.43	\$ 39,540	\$ 75,000
39 Household Meter Bypass 95-09	\$ -	\$	52,466.93	\$ 52,467	\$ 20,000
40 Tulliby Lake Landslide 95-35	\$ -	\$	409.02	\$ 409	\$ -
41 Intermediate PSV Inspections 95-36	\$ -	\$	-	\$ -	\$ -
42 Tap 50 Rebuild 95-37	\$ -	\$	650.00	\$ 650	\$ -
43 Reg Station 620 Upgrades 95-38	\$ -	\$	-	\$ -	\$ 20,000
44 End of Line Pressure Sensors 95-40	\$ -	\$	-	\$ -	\$ -
45 SCADA South Network Upgrade 95-41	\$ -	\$	1,456.78	\$ 1,457	\$ 10,000
46 Tap 70 Regulator Upgrade 95-43	\$ -	\$	700.00	\$ 700	\$ -
47 CNG Refueling Study 95-45	\$ (5,948)	\$	40,058.08	\$ 34,110	\$ 50,000
48 Vent Gas Strategy 95-46	\$ -	\$	15,000.00	\$ 15,000	\$ 15,000
49 Tap 10 South Loop 95-047	\$ -	\$	124,138.12	\$ 124,138	\$ 250,000
50 Shop Addition 95-048	\$ -	\$	1,291.00	\$ 1,291	\$ 15,000
51 R0020-007 Reg Stn Move	\$ (13,675)	\$	3,937.15	\$ (9,738)	\$ -
52 TWP 490 Rd Construction Reroute 95-050	\$ -	\$	8,433.81	\$ 8,434	\$ 15,000
53 Tap 10 Station 95-051	\$ -	\$	1,039.26	\$ 1,039	\$ 20,000
54					
55 Subtotal Internal Capital Projects	\$ (19,623)	\$	289,121	\$ 269,498	
56					
57					
58 Total Projects	\$ (596,562)	\$	1,057,126	\$ 460,564	