M A N I T O B A	**)**	**Order No. 139/07**
	)	
THE PUBLIC UTILITIES BOARD ACT	**)**	**October 30, 2007**

BEFORE: Graham Lane, B.A., C.A., Chairman
Leonard Evans, LL.D., Member
Monica Girouard, CGA, Member

SWAN VALLEY GAS CORPORATION, NATURAL GAS
<u>COMMODITY RATES: EFFECTIVE NOVEMBER 1, 2007</u>

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EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves, through an interim ex parte process, Swan Valley Gas Corporation's (SVGC) application to maintain the existing gas consumption charges and extend the existing Purchase Gas Variance Account (PGVA) rate rider to October 31, 2008.

This approval will allow for Swan Valley Gas Corporation (SVGC) to further recover outstanding PGVA balances owing from customers without increasing rates.

INTRODUCTION

This Order relates only to SVGC's commodity costs and rates; non-commodity rates are amended through a separate process on application.

SVGC is a wholly owned subsidiary of SaskEnergy Incorporated. SVGC acquired natural gas distribution franchise rights for the Swan Valley region of Manitoba on July 4, 2000 (Board Order 93/00).

Board Order 93/00 directed that SVGC be regulated under a "Least Cost Regulation" approach, a regulatory model involving less direct Board oversight and the prospects of paper processes rather than oral hearings, this to restrain regulatory costs that are generally passed on to customers through rates.

Similar to the approach taken with Centra Gas Manitoba Inc. (Manitoba's largest natural gas distributor) and Stittco Utilities Man Ltd. (propane distribution, Thompson), SVGC does not "mark-up" its natural gas commodity and transportation costs, which are passed on to customers at cost, with Board approval, through rates. These costs include SVGC's actual natural gas commodity costs and transportation to SVGC to the Many Islands Pipeline metering station located in Manitoba.

As such, costs are initially reflected in rates at projected cost levels; differences arise between actual and projected costs and are generally reflected in amendments to future rates. This process involves Purchase Gas Variance deferral accounts (PGVA).

On October 25, 2006, Board Order 145/06 approved commodity-based rates for the period November 1, 2006 to October 31, 2007. The rates were based on an estimated embedded cost of natural gas of $7.109/GJ ($8.803 in the previous year) as well as the extension of a PGVA rate rider of $1.035/GJ, implemented in 2005 and continued in 2006.

APPLICATION

On September 2, 2007, SVGC filed a rate application with the Board seeking to:

i. continue charging existing rates reflecting natural gas commodity costs of $7.109/GJ. The commodity cost for the gas year commencing November 1, 2007 was projected at $6.906/GJ, compared to the $7.109/GJ embedded in the current commodity rate. Given the small percentage change in the commodity rate and continued price uncertainty for unhedged volumes, SVGC did not seek a commodity rate adjustment for the upcoming gas year;
ii. extend the existing PGVA rate rider of $1.035/GJ, to continue recovery of the PGVA balance owing to SVGC; and
iii. discuss with the Board the possibility of establishing a “dead band” for the annual commodity rate review process (a price range which would not require a rate change).

SVGC requested that the Board approve its application on an ex parte basis, and given that the application required no rate changes and to avoid regulatory costs, the Board so proceeded.

Gas Consumption Charge – Cost of Gas

The Gas Consumption Charge (natural gas commodity cost rates) proposed in the application is for the period November 1, 2007 to October 31, 2008, and is intended to recover SVGC’s cost of natural gas commodity sold over this period.

SVGC purchases gas at market prices based upon the AECO daily price index, included in its cost estimate were:

a) a TransGas Energy Pool (TEP) basis differential of $0.04/GJ; and
b) a gas management fee of $0.065/GJ (charged for services rendered by SVGC's parent company).

SVGC has no storage facilities, thus it purchases gas each day.

AECO natural gas commodity prices utilized for the development of the approved rates were the prices at closing of AECO forward prices on September 19, 2007.

Natural Gas Price Hedging

SVGC's Board-approved policy provides for the use of financial derivatives to hedge a portion of winter natural gas requirements. A fixed-price hedge may be engaged between May 1 and September 30 of each year, for the upcoming winter.

The placing and the timing of the hedge are at the discretion of SVGC, as delegated to its parent company, and are to take into account the following:

i. current commodity price in relation to historical prices (a current price below the short-term mean may provide support for a hedge);
ii. current fundamentals of market supply/demand, including current industry natural gas storage inventory levels;
iii. forecasts for future natural gas commodity prices; and
iv. time of year - the approved concept involves a hedge being placed at a favourable point in time between May 1 and September 30 of each year.

If circumstances result in no hedge being placed by September 30, in the absence of special circumstances and Board-approval, a hedge would then be placed.

During the recent natural gas year (November 2006 – October 2007), SVGC executed a hedge at a price of $6.88/GJ for the winter period November 1, 2006 to March 31, 2007, covering 60% of its winter volumes. This represented 47% of its total purchased volumes, distributed as follows: 80%, 50%, 64%, 39%, and 60 % respectively for the months of November 2006 to March 2007. SVGC and its customers benefited from the drop in prices that occurred in the spring and summer of 2007, resulting in hedge receipts of $4,149.

For the coming gas year starting November 1, 2007, SVGC again hedged 60% of forecasted 2007/08 winter volumes. As prescribed in SVGC's hedging policy, SVGC executed a fixed price swap at $6.95/GJ for the winter period November 2007 to March 2008 on August 20, 2007.

The objective of SVGC's hedging policy is to reduce natural gas price volatility.

<u>Anticipated Commodity Costs – November 2007 to October 2008</u>

SVGC natural gas purchases are made at TEP, and costs to transport the gas from TEP to the SVGC delivery system are included in the commodity rate. Since the transportation charge is determined based on cost allocation by rate class, commodity rates are also set by rate class. Added to the cost of gas at TEP and transportation costs is a "PGVA rate rider" intended to recover or refund any balances within the PGVA. Current commodity rates are as follows:.

	Commodity Cost at TEP	TGL Transport	MIPL Transport	PGVA Rider	Total Commodity Charge
	($ per Gigajoules)				
Residential	$7.109	$0.472	$1.417	$1.035	**$10.033**
Commercial	$7.109	$0.472	$1.417	$1.035	**$10.033**
General Service	$7.109	$0.404	$1.214	$1.035	**$ 9.762**
Institutional	$7.109	$0.354	$1.063	$1.035	**$ 9.561**

With natural gas prices as of September 19, 2007, the commodity cost of gas at TEP for the gas year is $6.906/GJ, compared to $7.109/GJ embedded in the current commodity rate.

With Board approval of SVGC's application, the changes that would result are as follows:

	Existing Commodity Charge ($/GJ)	Indicative Commodity Charge ($/GJ)	Change $/GJ	Commodity Change (%)	Average Customer Bill Impact (%)
Residential	$10.033	$9.829	($0.204)	(2.0)	(1.3)
Commercial	$10.033	$9.829	($0.204)	(2.0)	(1.5)
General Service	$ 9.762	$9.560	($0.202)	(2.1)	(1.8)
Institutional	$ 9.561	$9.357	($0.204)	(2.1)	(1.9)

Given the small percentage change in the indicative commodity rate (the annual bill change is negligible), SVGC did not seek a commodity rate adjustment for the upcoming gas year. (Note: average annual customer consumption has been 65GJ.)

Natural gas prices are extremely volatile. Over the past month, the indicative commodity cost of gas at TEP has ranged from $6.80/GJ to $7.50/GJ. The execution of the hedging strategy at the long-term average price for the winter has dampened the effect of natural gas price volatility, however 40% of winter sales and all of summer sales are still exposed to changes in natural gas prices. Additionally, within the existing commodity cost of gas at TEP, is an embedded AECO price of around $7.00/GJ. The current long-term mean of AECO prices is between $6.90 and $6.95/GJ. Maintaining a commodity rate near the long-term price of natural gas contributes to rate stability.

PGVA Recovery

SVGC's PGVA was in a deficit position as at October 31, 2005, with funds owing from customers of $395,304. At that time, the balance due from customers was projected to increase to $436,311 at January 31, 2006 (based on then-higher forecast natural gas prices). SVGC sought and obtained Board approval for a PGVA rate rider to supplement the Gas Consumption rate, effective February 1, 2006. However, natural gas commodity prices fell, resulting in a balance of $354,346 as at October 31, 2006.

SVGC's Cost of Gas and Purchase Gas Variance Account for the November 1, 2006 to October 31, 2007 gas year is forecast to be at $259,936 on October 31, 2007. This is an overall reduction in the PGVA balance outstanding of $94,410 for the period November 1, 2006 to October 31, 2007. The existing PGVA rate rider of $1.035/GJ contributed a reduction of $76,797 over the twelve-month period.

The balance of the reduction, $17,613, is due to a lower commodity cost of gas at TEP than the $7.105/GJ embedded in the current rates, and slightly lower transportation costs upstream of TEP. The PGVA makes up $$0.039 per cubic metre of the Gas Consumption Charge within each rate class.

Although SVGC recovered more than it expected with the PGVA rate rider over the previous gas year, SVGC is seeking permission for an extension of this rider to October 31, 2008. The extension of the rate rider is forecast to further reduce the PGVA rate rider by $71,926 over the next gas year. SVGC's rate strategy is to continue to reduce the PGVA balance at a rate that will not induce hardship on its customers. By leaving the current PGVA rate rider in place, there will be no impact on SVGC customer rates this upcoming gas year.

Considering the regulatory expense of processing a commodity rate application, SVGC approached the Board seeking the possibility of establishing a "dead band" for the annual commodity rate review process. SVGC noted that in Canada, regulatory precedent for such an approach has been established: Terasen Gas and the British Columbia Utilities Board established that if the indicative commodity rate is +/- 5% of the existing commodity rate, no adjustment to the commodity rate is required. An approach similar to this would be suitable to SVGC because it would not only reduce regulatory costs but would also reduce the costs associated with public notice requirements necessary for a commodity rate adjustment. This practice is consistent with "Least Cost Regulation," the approach currently used to regulate SVGC.

The Board notes that the average number of customers has not grown significantly over time although volumes have increased from 46,000 GJ to 65,000 GJ since 2005:

Average # of Customers		
2005	227	Actual
2006	232	Actual
2007	232	Forecast
2008	235	Forecast

BOARD FINDINGS

The Board will approve SVGC's application to continue the currently charged rates from November 1, 2007 through to October 2008. The Board will also approve the continuation of SVGC's PGVA rate rider. The Board will contact SVGC at a later date to discuss the proposal to establish a +/-5% price change "dead band."

The Board proceeded by way of an interim ex parte Order, being mindful of the least cost regulatory model applicable to SVGC, the fact that natural gas prices are forecasted to remain close to last year's prices, and that SVGC has hedged 60% of its winter volumes, at prices slightly below the embedded price of last year.

In exercising least cost regulation, the Board generally relies on paper processes rather than oral hearings. The Board also relies on SVGC and its parent company for information, which is then tested by the Board. The Board generally has not involved its professional advisors in regulating SVGC, again in its effort to restrain regulatory costs. The Board notes the actions of SaskEnergy have been towards the same goal, i.e. lower than otherwise required rates for SVGC's customers.

The Board notes the forecast for the PGVA balance, $259,300 by October 31, 2007, reduced from a high of $395,304 in October 2005. The Board notes that the size of the PGVA represents a significant liability for a low customer base, with SVGC entitled to recover the balance. The Board is also mindful of the intergenerational inequity resulting from lengthy delays in settling the PGVA account, and of the significant contributions of SVGC's parent company towards restraining SVGC customer rates.

The Board accepts SVGC's proposed approach, which amounts to gradual recovery respectful of a shared desire to avoid customer rate shock.

IT IS THEREFORE ORDERED THAT:

1. SVGC's request to continue gas consumption sales rates charged at $7.109/GJ through to October 31, 2008 BE AND IS HEREBY APPROVED.

2. SVGC's request to continue the rate rider of $1.035/GJ for the period November 1, 2007 to October 31, 2008 BE AND IS HEREBY APPROVED.

3. The Rate Schedule attached as Appendix "A" reflecting the above changes BE AND IS HEREBY APPROVED.

Fees payable upon this Order - $2,000.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"GERRY GAUDREAU, CMA"
Secretary

Certified a true copy of Order No. 139/07 issued by The Public Utilities Board

Secretary

Swan Valley Gas Corporation
A SaskEnergy Company

Monthly Natural Gas Rates
November 1, 2006

For customers who purchase their natural gas and delivery service from Swan Valley Gas:

Rate Class (Code)	Applicable To	Monthly Natural Gas Rates: Basic Monthly Charge ($)	Delivery Charge ($/m^3)	Gas Consumption Charge ($/m^3)	2000 to 2009 Project Price Customer Contribution* ($)
Residential:					
Residential (M01, M11, M21)	Residence, Cottage, Farm up to 10,000 m^3/yr	15.00	0.132	0.376	877.40
Commercial:					
Commercial (M02)	0 to 10,000 m^3/yr	26.69	0.055	0.376	1,016.50
General Service (M03)	10,001 to 100,000 m^3/yr	26.69	0.043	0.366	7,490.00
Institutional (M04)	100,001 to 1,000,000 m^3/yr	26.69	0.031	0.358	16,317.50

***Includes GST**

Minimum Bill: **Basic Monthly Charge**

Taxation: **Any taxes, levies or surcharges which may be lawfully imposed by or at the request of any municipal, provincial, or federal authority will be charged to the customer as required.**

For Contract Industrial Service:
See next page

Swan Valley Gas Corporation
A SaskEnergy Company

Monthly Natural Gas Rates February 1, 2006

For industrial customers who contract for delivery service from Swan Valley Gas, but who purchase their natural gas from a supplier other than Swan Valley Gas:

Rate Class	Applicable To	Monthly Delivery Rates Basic Monthly Charge ($)	Delivery Charge ($/m³)	Demand Charge ($/m³/Day)
Industrial:				
Delivery Service	**100 % firm and Over 1,000,000 m³/yr**	**250.00**	**N/A**	**0.351**
Minimum Bill:	**Basic Monthly Charge plus Demand Charge plus Apportionment of upstream transportation requirements**			
Interruptible Service	**Interruptible (In conjunction with Delivery Service contract)**	**250.00**	**0.015**	**N/A**
Minimum Bill:	**Basic Monthly Charge plus Delivery Charge plus Apportionment of interruptible upstream transportation requirements**			

All terms and conditions of service and rates are defined in and contained in a contract.

Taxation: **Any taxes, levies or surcharges which may be lawfully imposed by or at the request of any municipal, provincial, or federal authority will be charged to the customer as required.**

Swan Valley Gas Corporation
A SaskEnergy Company

Monthly Natural Gas Rates
Louisiana Pacific Canada Ltd.
Effective December 23, 2005

For Louisiana Pacific Canada Ltd. who contracts for delivery service from Swan Valley Gas, but who purchases their natural gas from a supplier other than Swan Valley Gas:

Contract Rate	Applicable To	Monthly Delivery Rates Basic Monthly Charge ($)	Delivery Charge ($/m^3)	Demand Charge ($/m^3/Day)
Industrial:				
Delivery Service	**100 % firm and Over 1,000,000 m^3/yr**	**59,580.00**	**N/A**	**Included**
Minimum Bill:	**Basic Monthly Charge includes daily flows up to 1,831 GJ per day plus apportionment of upstream transportation requirements**			
Interruptible Service	**Interruptible (In conjunction with Delivery Service contract)**	**250.00**	**0.015**	**N/A**
Minimum Bill:	**Basic Monthly Charge plus Delivery Charge plus apportionment of any interruptible upstream transportation requirements**			

All terms and conditions of service and rates are defined in and contained in a contract.

Taxation: **Any taxes, levies or surcharges which may be lawfully imposed by or at the request of any municipal, provincial, or federal authority will be charged to the customer as required.**