M A N I T O B A	)	**Order No. 145/06**
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**October 25, 2006**

BEFORE: Graham Lane, B.A., C.A., Chairman
Monica Girouard, CGA, Member
Alain Molgat, B.Comm., C.M.A., Member

SWAN VALLEY GAS CORPORATION, NATURAL GAS COMMODITY RATES, NOVEMBER 1, 2006

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY 3

INTRODUCTION 3

APPLICATION 5

BOARD FINDINGS 12

IT IS THEREFORE ORDERED THAT 13

APPENDIX "A" 14

EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves natural gas commodity rates for Swan Valley Gas Corporation (SVGC) customers effective November 1, 2006. Customers will experience an overall rate decrease of $0.066 per cubic meter, representative of an average annual bill decrease of $118 or 9.8%.

INTRODUCTION

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

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 so as to reduce regulatory costs (which are passed on to customers through rates).

Similar to the approach taken with Centra Gas Manitoba Ltd. (natural gas distributor) and Stittco Man Utilities Ltd. (propane distribution, Thompson), SVGC does not “mark-up” its natural gas commodity and transportation costs and passes them on at cost, with Board approval, to its customers through rates. Costs passed on without mark-up include SVGC’s actual natural gas commodity costs and upstream transportation to SVGC at the Many Islands Pipeline metering station located in Manitoba.

As such costs are initially projected in setting rates, differences between actual and projected costs are recorded and result in amendments to future rates. This process involves the establishment of Purchase Gas Variance deferral accounts (PGVA).

On January 31, 2006, Board Order 12/06 approved on an interim basis SVGC commodity-based rates for the period February 1, 2006 to October 31, 2006. The rates then set were based on an estimated embedded cost of natural gas of $8.83/GJ as well as a PGVA rate rider in the amount of $1.035/GJ.

One objective of Order 12/06 was to facilitate a transition to a November 1 to October 31 annual gas commodity consumption year, with a review of such costs to be made annually as of November 1.

APPLICATION

On September 22, 2006, SVGC filed a rate application with the Board seeking to:

i. decrease rates to reflect SVGC's cost of natural gas of $7.109/GJ, down from $8.830/GJ; on approval by the Board, this would result in a decrease in customer rates of $0.066 per cubic metre (/$m^3$) effective November 01, 2006; and

ii. extend an existing PGVA rate rider of $1.035/GJ to continue recovery of the PGVA balance owing to SVGC.

SVGC requested that the Board approve its application on an expedited and ex parte basis. The Board acted expeditiously but did not proceed on an ex parte basis; instead, it invoked a paper process involving notice to SVGC customers providing details of SVGC's application and inviting comments.

The application proposed overall annual bill decreases of approximately 9.8% to 14.4% (the decrease varying by customer class and consumption volumes). On average, residential customers may anticipate a decrease in annual bills of $118 or 9.8%.

In response to the notice inviting comments from customers, none were received.

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, 2006 to October 31, 2007, 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 are:

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

SVGC has no storage facilities; it purchases natural gas as needed each day.

AECO natural gas commodity prices utilized for the development of the approved revised rates were the closing AECO forward prices as at September 15, 2006.

Natural Gas Price Hedging

SVGC's Board-approved policy may involve 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. the then-current market price in relation to historical prices (a current price below the short-term mean may provide support for a hedge);

ii. the then-current fundamentals of market supply/demand, including current industry natural gas storage inventory levels;

iii. analyst forecasts for future natural gas commodity prices; and

iv. time of year; the 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 having been 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 2005 - October 2006), SVGC received Board approval not to hedge. Extraordinarily high natural gas prices followed Hurricanes Katrina and Rita and resultant damage to Gulf of Mexico production and transportation of natural gas, and continued to mid-December 2005. SVGC, its parent company and the Board apprehended the existence of a price bubble and, as a result, SVGC did not hedge volumes at then-market prices of approximately $14/GJ.

With recovery of Gulf production and a "warm" winter, natural gas prices subsided, with the falling prices, not hedged, significantly benefiting SVGC's customers. The lower natural gas prices are reflected in lower rates than would otherwise have been in place from February 2006, when rates were increased by 12.9%-19%, rather than by 29%.

For the coming gas year starting November 1, 2006, with prices being considerably lower than last year, SVGC hedged 60% of forecasted winter volumes for winter 2006/07.

In placing its hedge, SVGC exercised judgment, and held off placing the hedge while prices for the upcoming winter were trading at an abnormally wide spread to this summer's price. (While SVGC held off placing the hedge, winter natural gas commodity prices were well above the average AECO settlement price of $6.92/GJ of the past three years.) However with a decline in prices, on September 21, 2006 SVGC executed a hedge at a price of $6.88/GJ for the winter period November 1, 2006 to March 31, 2007.

Transportation

TransGas Limited (TGL) and Many Islands Pipeline Limited (MIPL) transport natural gas across the Saskatchewan/Manitoba border to connect to SVGC's delivery system. Embedded in the gas consumption rate are transportation rates reflecting these costs; rates last updated February 01, 2006. No changes are being proposed to these rates.

Purchase Gas Variance Account (PGVA)

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

Based on the forecast PGVA balance at January 31, 2006 of $436,311, the $1.035/GJ rider put into place was projected to recover for SVGC 8% of the outstanding PGVA, or $34,905, over the period February 1, 2006 to October 31, 2006. Without the rate rider, the PGVA was forecast to increase to $538,000 by October 31, 2006, rather than $433,000 with the rider.

However, natural gas commodity prices fell, resulting in a forecast PGVA balance for October 31, 2006 of $350,760, approximately $180,000 lower than originally forecast and compared to the October 31, 2005 PGVA of $395,305.

SVGC sought approval from the Board to extend the duration of the current PGVA rate rider of $1.035/GJ to allow it to continue to recover and reduce the outstanding PGVA.

SVGC acknowledged that the PGVA rate rider is a significant portion of overall customer rates; however, given the size of the PGVA, SVGC submitted it was important to continue to reduce the PGVA. The continuation of the rider was forecast to generate additional commodity revenue to SVGC of $70,500 over the forecast period, this to reduce the PGVA balance outstanding to $283,500 as of October 31, 2007.

SVGC also noted the contributions of its parent company towards restraining SVGC customer rates. The following is a list of foregone revenue to SaskEnergy absorbed on behalf of SVGC:

- For the calendar year 2001, MIPL, a subsidiary of SaskEnergy, forgave 100% of transportation charges invoiced to SVGC ($136,200);
- For the calendar year 2002, MIPL forgave 50% of transportation charges invoiced to SVGC ($131,000);
- SVGC contracted demand volume of 4,198 GJ/day until December 2005, and, in 2004, MIPL allowed SVGC to adjust its contract demand level from 4,198 GJ/day to 3,160 GJ/day ($118,000 not billed SVGC); and
- Contract demand in 2005 was again reduced from 4,198 GJ/day to 3,730 GJ/day ($112,000 not billed SVGC).

Since inception, SaskEnergy, through its subsidiary MIPL, has forgone approximately $500,000 of transportation revenue that could have been billed SVGC. In other words, if SaskEnergy had not foregone billing SVGC at agreed-to rates, the PGVA balance at October 31, 2006 would have been approximately $500,000 higher. A substantial subsidy has been provided for the benefit of SVGC customers.

Gas Consumption Charge

With respect to natural gas consumption rates, SVGC seeks to:

1) represent in rates a current cost of natural gas of $7.109/GJ, a decrease from $8.830/GJ;
2) embed TransGas and MIPL transportation charges in the natural Gas Consumption rates by customer class (no change); and
3) continue the PGVA rate rider of $1.035/GJ.

Commodity rate changes were proposed to be effective as of November 1, 2006, with the revised rates to be maintained until a subsequent SVGC application and Board determination.

Annualized Bill Impacts

SVGC's application provides for significant annual bill decreases for customers.

For example, on an annualized basis the average homeowner may expect a decrease of $118 annually or 9.8%. Total annualized bill and bill impacts projected for average, small and large consumption levels are summarized below:

TABLE 1

Class	**Usage** Cubic metres/year	**Decrease** Avg. $/Year	**Change** %
Residential	1,791	118	(9.8)
Commercial	4,601	304	(11.6)
General Service	30,728	2,028	(13.6)
Institutional	160,101	10,567	(14.4)

BOARD FINDINGS

The Board will approve SVGC's application, and amend rates effective November 1, 2006. Reflecting lower natural gas commodity prices, the Board will approve rate decreases ranging from 9.8% to 14.4%. The Board will also approve the continuation of SVGC's PGVA rate rider.

In reaching its decisions, the Board considered the evidence before it and notes that no comments were received from SVGC customers in response to a notice of the application.

The Board applies a least cost regulatory model in its regulation of SVGC. This involves reliance on paper processes rather than oral hearings, where possible. It also involves the Board relying on SVGC and its parent company for information, though tested by Board staff. The Board generally has not involved its professional advisors in regulating SVGC, again in an effort to restrain regulatory costs. The Board notes the actions of SaskEnergy towards the same goal, i.e. lower than otherwise required rates for SVGC's customers.

The Board notes the forecast for the PGVA balance, to be $350,760 by October 31, 2006. The Board notes that the size of the PGVA represents a significant liability for a low customer base, though recognizing that SVGC is entitled to recover the PGVA. The Board accepts SVGC's proposed approach, which amounts to gradual recovery respectful of the desire to avoid customer rate shock.

IT IS THEREFORE ORDERED THAT:

1. SVGC's request to decrease gas consumption sales rates charged to $7.109/GJ effective November 1, 2006 BE AND IS HEREBY APPROVED.

2. SVGC's request to continue the rate rider of $1.035/GJ for the period November 1, 2006 to October 31, 2007 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

“H. SINGH
Acting Secretary

Certified a true copy of Order No. 145/06 issued by The Public Utilities Board

Acting Secretary

Appendix "A"

Swan Valley Gas Corporation

A SaskEnergy Company

Monthly Natural Gas Rates Effective 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*:*

Appendix "A"

Swan Valley Gas
Corporation
A SaskEnergy Company

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:

		Monthly Delivery Rates		
Rate Class	12 Applicable To	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	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.

November, 2006

Appendix "A"

November 1, 2006 Rates

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

		Monthly Delivery Rates		
Contract Rate	**Applicable To**	**Basic Monthly Charge ($)**	**Delivery Charge ($/m^3)**	**Demand Charge ($/m^3/Day)**
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	250.00	0.015	n/a
	(In conjunction with Delivery Service Contract)			
Minimum bill	Basic Monthly Charge plus Delivery Charge plus apportionment of any interruptible upstream transportation requirements			

November, 2006