M A N I T O B A	**)**	**Order No. 148/08**
	)	
THE PUBLIC UTILITIES BOARD ACT	**)**	**October 30, 2008**

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

SWAN VALLEY GAS CORPORATION:
NATURAL GAS COMMODITY RATES
(EFFECTIVE AS OF NOVEMBER 1, 2008)

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EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves the Swan Valley Gas Corporation's (SVGC) Application to increase existing natural gas consumption charges and reduce and extend the existing Purchased Gas Variance Account (PGVA) rate rider to October 31, 2009.

This approval allows SVGC to reflect increased natural gas commodity costs in the commodity rates and further recover outstanding PGVA balances owing from customers.

INTRODUCTION

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

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

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 expectation of "paper" processes rather than oral hearings, so as to restrain regulatory costs that generally are passed on to customers through rates.

Similar to the approach taken by Centra Gas Manitoba Inc. (Manitoba's largest natural gas distributor), also regulated by the Board, 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.

Such costs include actual natural gas commodity costs and transportation to SVGC to the Many Islands Pipeline metering station located in Manitoba. Costs are initially reflected in rates at projected cost levels; and the differences that arise between actual and projected costs are generally reflected in rates by way of subsequent amendments. This process involves PGVA deferral accounts.

The previous change to SVGC's rates occurred on October 30, 2007, Board Order 139/07, which approved commodity-based rates for the period November 1, 2007 to October 31, 2008. The rates were based on an estimated embedded cost of natural gas of $7.109/GJ ($7.109 and $8.803 were reflected in the two previous years), as well as the extension of a PGVA rate rider of $1.035/GJ that was implemented in 2005 and continued in place through 2006.

APPLICATION

On September 23, 2008, SVGC filed a rate Application seeking to:

i. increase existing commodity rates to reflect recent natural gas commodity costs at the TransGas Energy Pool (TEP) of $7.854/GJ - the commodity cost for the gas year commencing November 1, 2007 was set at $7.109/GJ, which was embedded in the current commodity rate.
ii. reduce and extend the existing PGVA rate rider – from $1.035/GJ to $0.700/GJ to continue recovery of the PGVA balance owing to SVGC.

Approval of the Application will result in a net increase of the gas consumption charge for each rate class of $0.012 per cubic metre.

The Board considered the Application by way of a paper-based hearing process. On the direction of the Board, SVGC provided a written notice of its Application to all of its customers providing an opportunity for the provision of comments to the Board by October 15, 2008. No comments were received.

Gas Consumption Charge – Cost of Gas

The proposed Gas Consumption Charge (natural gas commodity cost rates) would cover the period November 1, 2008 to October 31, 2009, and would recover SVGC's cost of natural gas commodity as sold over the period.

SVGC purchases gas at market prices based upon the AECO daily price index; included in SVGC's cost estimate were:

a) a TransGas Energy Pool (TEP) basis differential of $0.08/GJ, an increase from $0.04; and
b) a gas management fee of $0.065/GJ, charged for services rendered by SVGC's parent company.

SVGC has no storage facilities and purchases gas requirements each day.

The AECO natural gas commodity price utilized for the development of the proposed rates were the prices at closing of AECO's forward prices on September 17, 2008.

Natural Gas Price Hedging

SVGC's policy provides for the use of financial derivatives to hedge a portion of the firm's 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, and in the absence of special circumstances and Board-approval, a hedge would then be placed.

As prescribed in SVGC's hedging policy, on August 28, 2008 SVGC executed a fixed price swap of $7.85/GJ for the winter period November 1, 2008 to March 31, 2009, with volumes of 200 GJ/day, accounting for 59% of its forecasted winter volumes.

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

Anticipated Commodity Costs – November 2007 to October 2008

SVGC natural gas purchases are made at TEP, with costs to transport the gas from TEP to the SVGC delivery system included in the commodity rate. Such costs were last updated February 1, 2006; no changes were proposed to these rates. Since the transportation charge is determined based on a 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.

Proposed commodity rates are as follows:

	Commodity Cost at TEP/GJ	TGL Transport/GJ	MIPL Transport/GJ	PGVA Rider/GJ	Total Commodity Charge/GJ	Cents/m^3 Commodity Charge
Residential	$7.854	$0.472	$1.417	$0.700	**$10.442**	**38.8**
Commercial	$7.854	$0.472	$1.417	$0.700	**$10.442**	**38.8**
General Service	$7.854	$0.404	$1.214	$0.700	**$ 10.172**	**37.8**
Institutional	$7.854	$0.354	$1.063	$0.700	**$ 9.970**	**37.0**

With natural gas prices as of September 17, 2008, the commodity cost of gas at TEP for the gas year is $7.85/GJ, this compared to $7.109/GJ, embedded in the current commodity rate.

With Board approval, the changes to result are as follows:

	Existing Commodity Charge ($/GJ)	Indicative Commodity Charge ($/GJ)	Change $/GJ	Commodity Change (%)	Average Customer Bill Impact (%)
Residential	$10.033	$10.442	$0.409	4.1	1.91
Commercial	$10.033	$10.442	$0.409	4.1	2.33
General Service	$ 9.762	$10.172	$0.410	4.2	2.78
Institutional	$ 9.561	$9.970	$0.409	4.3	3.07

Given the increase in the indicative commodity rate, SVGC sought a commodity rate adjustment for the upcoming gas year. (Note: average annual customer consumption has been 65GJ.)

Over the last decade, natural gas prices have been extremely volatile. Recently, since the first week in July 2008 winter prices have fallen from highs $12.00/GJ, and remained at a much lower level when SVGC executed its hedge on August 28, 2008 at $7.85.

The execution of the hedging strategy at the long-term average price for the winter will dampen natural gas price and rate 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 $7.559/GJ (not weighted for sales volumes).

As the recent longer-term mean of AECO prices has been between $7.15/GJ and $7.20/GJ, maintaining a commodity rate near the long-term price of natural gas should be expected to contribute to rate stability.

PURCHASED GAS VARIANCE ACCOUNT (PGVA)

The Board in Order No. 93/00 approved the establishment of a PGVA for SVGC. In this account, SVGC records the variance of actual revenues received from its Gas Consumption Charge, and actual costs incurred for the commodity. Included in the commodity costs are the following:

i) the raw cost of gas at TEP;
ii) natural gas price hedging cash flows;

iii) a gas management fee paid to SaskEnergy in the amount of $0.065/GJ; and

iv) downstream transportation charges from TGL and MIPL.

SVGC accrues interest on PGVA balances at SVGC's short-term borrowing rate.

Recovery of PGVA

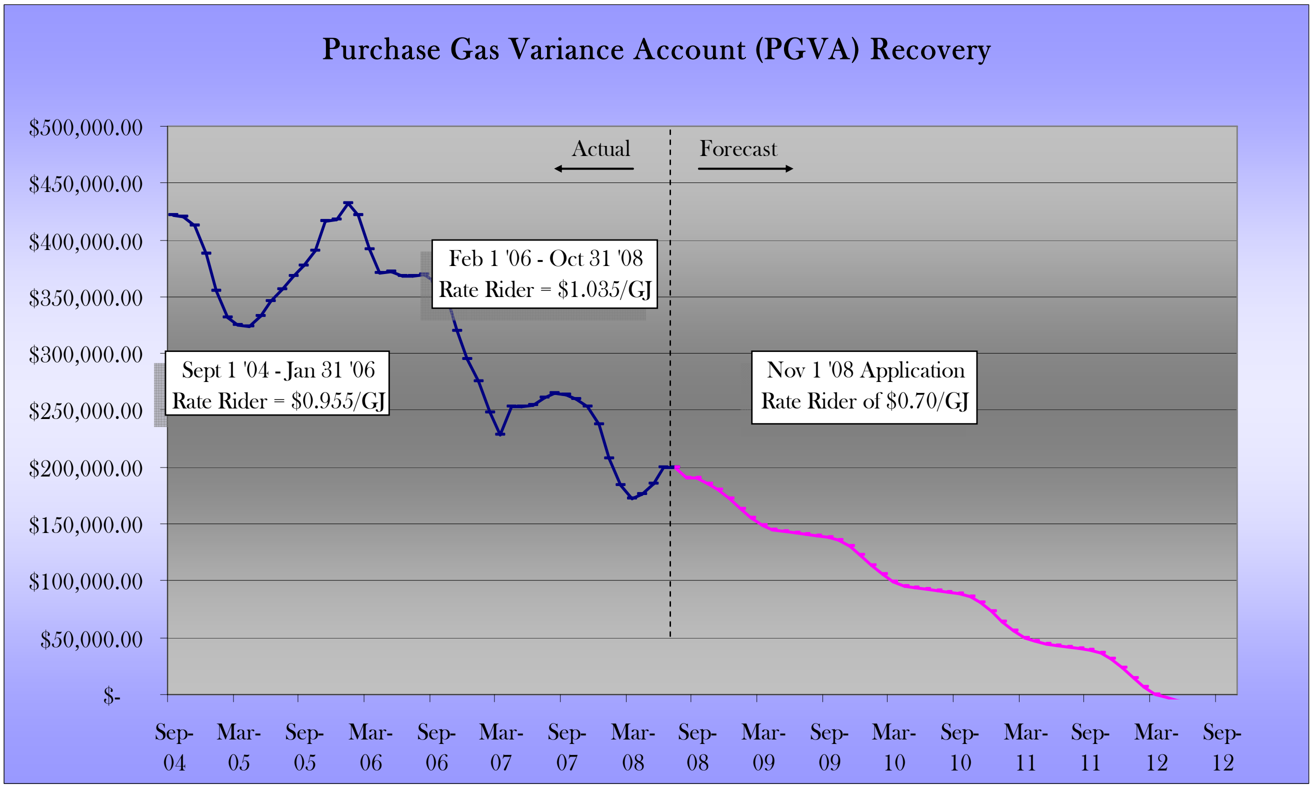
SVGC'S PGVA was reported to be in a deficit position of $185,001 as at October 31, 2008. This represents a reduction of $67,896 over the 2007/2008 gas year, and results from the current PGVA rate rider of $1.035. The current rate rider of $1.035/GJ expires on October 31, 2008.

SVGC sought approval for a PGVA rate rider of $0.70/GJ to continue recovery of the PGVA balance. Although the projected PGVA balance of $185,001 at October 31, 2008 is still significant, SVGC sought approval for a smaller PGVA rate rider because of the impact high natural gas prices are having on SVGC's customers. By seeking approval for a lower PGVA rate rider, the overall bill impact on customers of this Order will be reduced.

While a $0.70/GJ rate rider is $0.335/GJ less than the previous rider it is still material enough to reduce the outstanding PGVA by a projected amount of $49,000 for the period November 1, 2008 to October 31, 2009.

The following Table and graph charts the actual PGVA balance from September 2004 when the first PGVA rate rider was approved to August 2008. With the Board's approval of the reduced rate rider of $0.70/GJ, effective November 1, 2008, it is anticipated that the remaining PGVA balance will be eliminated by April 2012.

Purchase Gas Variance Account (PGVA) Recovery		
Balance at October 1st of each year		
	Actual	Forecast
01-Oct-04	$421,605	
01-Oct-05	$377,038	
01-Oct-06	$362,474	
01-Oct-07	$263,627	
01-Oct-08		$190,528
01-Oct-09		$138,335
01-Oct-10		$88,780
01-Oct-11		$39,226
01-Oct-12		$0



SVGC noted that in 2001 MIPL (a SaskEnergy subsidiary) agreed to forgive 100% of the transportation charges invoiced that related to providing natural gas transport to meet the needs of SVGC's non-industrial customers. In 2002, the amount forgiven was reduced to 50%, still resulting in savings for SVGC non-industrial customers of over $230,000.

MIPL provided further transportation relief to SVGC, by allowing the utility to adjust their contract demand level on the pipeline from 4,198 GJ/d to 3,160 GJ/d in 2004 and then to 3,730 GJ/d in 2005, resulting in transportation savings of approximately $260,000 in total over the two years.

The Board notes that the average number of SVGC customers has not grown significantly over time, although consumption volumes have increased from 46,000 GJ to 65,000 GJ since 2005/06. The increase in 2007/08 is weather related.

Average # of Customers and Volumes		
2005/06	227	Actual 46,000 GJ
2006/07	232	Actual 65,000 GJ
2007/08	232	Actual 70,000 GJ
2008/09	232	Forecast 65,000/GJ

Louisiana Pacific Ltd. (LP)

By way of letter dated October 17, 2008 SVGC asked that Board Order 173/07 be now confirmed as final. A signed copy of the Agreement of Terms and Conditions of Service together with rate schedule corrected for a mathematical error was included.

BOARD FINDINGS

The Board will approve SVGC's Application to increase the currently charged rates from November 1, 2008 through to October 2009 and the reduction of SVGC's PGVA rate rider.

The Board proceeded by way of a paper process to continue its least cost regulatory model being applied to SVGC. The approach is also aided by the fact that natural gas prices are forecasted (at this time) to remain close to last year's prices. In addition, SVGC has hedged 60% of its winter volumes at prices slightly above the embedded commodity price of last year.

In exercising least cost regulation, the Board relies on SVGC and its parent company for information, which is tested by the Board. Generally, the Board has not involved its professional advisors in regulating SVGC, again in an effort to restrain regulatory costs. The Board notes the actions of SaskEnergy have been beneficial for consumers and have realized lower rates than a strict cost-based approach would likely have brought.

The Board notes the significant effort by SVGC's parent company to minimize SVGC's costs so as to restrain customer rates.

The size of the current PGVA account represents a significant liability for a low customer base. The Board is mindful of the intergenerational inequity that may result from lengthy delays in settling PGVA accounts. Nonetheless, the Board accepts SVGC's Application to reduce the PGVA rate rider, in light of increased natural gas prices and given the small customer base. The Board accepts SVGC's proposed approach, which amounts to gradual recovery respectful of a shared desire to avoid customer rate shock.

The Board in Order 173/07 approved on an interim basis on December 31, 2007 the proposed Terms and Conditions of Service and Rates applicable to LP.

The Board was subsequently advised that there was an error in those rates. SVGC discussed the matter with LP and the error was corrected.

The Board will now confirm Board Order 173/07 on a final basis together with the corrected rate schedule which is attached as page 3 to Appendix A. The Board notes that this rate expires on December 31, 2008.

IT IS THEREFORE ORDERED THAT:

1. SVGC's request to increase the cost of gas at the TransGas Energy Pool contained within the gas consumption charge for each sales class rate to $7.854/GJ through to October 31, 2009 BE AND IS HEREBY APPROVED.

2. SVGC's request to reduce the rate rider from $1.035/GJ to $0.70/GJ for the period November 1, 2008 to October 31, 2009 BE AND IS HEREBY APPROVED.

3. Interim Orders 139/07 and 173/07 BE AND ARE HEREBY CONFIRMED AS FINAL.

3. The Rate Schedule attached as Appendix "A" reflecting the above changes and the corrected schedule of rates for LP 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. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 148/08 issued by The Public Utilities Board

Acting Secretary

Swan Valley Gas Corporation
A SaskEnergy Company

Monthly Natural Gas Rates
November 1, 2008

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	0.388	861.00
Commercial:					
Commercial (M02)	0 to 10,000 m^3/yr	26.69	0.055	0.388	997.50
General Service (M03)	10,001 to 100,000 m^3/yr	26.69	0.043	0.378	7,350.00
Institutional (M04)	100,001 to 1,000,000 m^3/yr	26.69	0.031	0.370	16,012.50

***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 ($)	Delivery Charge ($/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 conjuction 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, 2007

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**	**55,841.33**	**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.**