

**MANITOBA** ) **Order No. 108/10**  
 )  
**THE PUBLIC UTILITIES BOARD ACT** ) **October 29, 2010**

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

**SWAN VALLEY GAS CORPORATION:  
NATURAL GAS COMMODITY RATES  
(EFFECTIVE NOVEMBER 1, 2010)**

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## EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves Swan Valley Gas Corporation's (SVGC) application to decrease natural gas consumption charges to \$4.369/GJ from \$5.178/GJ, and also approves a Purchase Gas Variance Account (PGVA) credit rate rider of \$0.253/GJ to be deducted from the revised gas consumption charge (to refund a balance owing to customers).

The combined effect of reduced commodity charges, the PGVA credit and transportation charges result in the following approved gas consumption charges:

Rate Class	Current Commodity Charge ¢/m <sup>3</sup>	Approved Commodity Charge ¢/m <sup>3</sup>
Residential	24.8	21.8
Commercial	24.8	21.8
General Service	23.0	20.0
Institutional	22.4	19.4

The net effect is a 3 cent per cubic metre reduction in gas consumption charges from existing rates for all customer classes: the revised rates are effective November 1, 2010.

## INTRODUCTION

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

On September 10, 2010, SVGC applied for approval of decreased gas commodity consumption charges (from \$5.178/GJ to \$4.369/GJ) and the establishment of a PGVA rate rider refund of \$0.253/GJ.

This Order 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.

By Order 93/00, SVGC is regulated under the “Least Cost Regulation” approach, a regulatory model involving less direct Board oversight and the expectation of “paper based” processes rather than oral hearings. This process reduces regulatory costs that would otherwise be reflected in customer rates.

The previous change to SVGC’s rates was by way of Order 148/09, which approved commodity-based rates for the period November 1, 2009 to October 31, 2010.

## **APPLICATION**

SVGC filed an application seeking to:

- i. Decrease existing commodity rates to reflect recent natural gas commodity costs at the TransGas Energy Pool (TEP) from \$5.178/GJ to \$4.369/GJ; and
- ii. Allow for a PGVA rate rider of \$0.253/GJ (to refund the balance owing to customers in the PGVA).

Approval will result in a net decrease of the gas consumption charge for each rate class of 3 cents per cubic metre.

The Board considered the application by way of a paper-based process, and SVGC provided written notice of its proposal to its customers providing an opportunity for customers to provide comments directly to the Board; no comments were received.

### *Gas Consumption Charge – Cost of Gas*

The proposed Gas Consumption Charge (natural gas commodity cost rates) is expected to cover the period November 1, 2010 to October 31, 2011. The calculated gas consumption rate is designed to recover SVGC’s projected cost of natural gas sold over this time period.

The projected cost is based on estimates of monthly gas volumes, AECO forward market prices, costs associated with hedges purchased by SVGC, gas transportation costs and rate rider allowances from the PGVA.

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 \$0.09/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 and purchases gas requirements each day.

SVGC does not "mark-up" its natural gas commodity and transportation costs. These costs are passed on to customers at cost through rates approved by the Board. Such costs include natural gas commodity costs and transportation costs to SVGC.

The AECO forward natural gas commodity price utilized for the development of the proposed gas consumption charge rates, represents the prices at closing of AECO's forward prices on August 23, 2010. The TransGas Energy Pool basis differential is the price spread between the AECO hub in Alberta and the TransGas Energy Pool in Saskatchewan.

### **Natural Gas Price Hedging**

Board Order 111/04 authorized SVGC to hedge a portion of expected winter gas volumes.

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

The placing and the timing of the hedge volumes are at the discretion of SVGC 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.

On June 22, 2010 SVGC executed a fixed price swap for \$4.75/GJ. The volume hedged was for 200 GJ per day for the winter period from November 2010 through March 2011. This hedged volume accounts for approximately 63% of forecast winter purchases.

**Anticipated Commodity Costs – November 2010 to October 2011**

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. 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 were:

	Commodity Cost at TEP/GJ	TGL Transport/GJ	MIPL Transport/GJ	PGVA Rider/GJ	Total Commodity Charge/GJ	Proposed Commodity Charge Cents/m <sup>3</sup>	Current Commodity Charge Cents/m <sup>3</sup>
<b>Residential</b>	\$4.369	\$0.619	\$1.098	(\$0.253)	<b>\$5.833</b>	<b>21.8</b>	<b>24.8</b>
<b>Commercial</b>	\$4.369	\$0.619	\$1.098	(\$0.253)	<b>\$5.833</b>	<b>21.8</b>	<b>24.8</b>
<b>General Service</b>	\$4.369	\$0.442	\$0.784	(\$0.253)	<b>\$ 5.342</b>	<b>20.0</b>	<b>23.0</b>
<b>Institutional</b>	\$4.369	\$0.387	\$0.686	(\$0.253)	<b>\$ 5.189</b>	<b>19.4</b>	<b>22.4</b>

Customer class rate impacts are expected as follows:

**Customer Class Impacts  
Intra Class Rate Change**

<b>Customer Class</b>	<b>Total Annual Bill</b>			<b>Annualized Bill Impact</b>	
	Annual Usage m <sup>3</sup> /year	Current Rate \$/year	Proposed Rate \$/year	Change \$/year	Percentage %/year
<b>Residential</b>					
<b>Low</b>	1,000	673	643	-30	-4.5%
<b>Average</b>	1,757	1,001	948	-53	-5.3%
<b>Hi</b>	4,000	1,972	1,852	-120	-6.1%
<b>Commercial</b>					
<b>Low</b>	3,000	1,401	1,311	-90	-6.4%
<b>Average</b>	5,453	2,203	2,040	-164	-7.4%
<b>Hi</b>	8,000	3,036	2,796	-240	-7.9%
<b>General Service</b>					
<b>Low</b>	20,000	6,214	5,614	-600	-9.7%
<b>Average</b>	23,764	7,306	6,593	-713	-9.8%
<b>Hi</b>	70,000	20,714	18,614	-2,100	-10.1%
<b>Institutional</b>					
<b>Low</b>	100,000	27,057	24,057	-3,000	-11.1%
<b>Average</b>	167,575	45,100	40,072	-5,027	-11.1%
<b>Hi</b>	200,000	53,757	47,757	-6,000	-11.2%

Since July 2008, natural gas and oil prices have fallen sharply. Despite a partial recovery of oil prices, natural gas prices remain very low. Global economic growth remains marginal and future economic growth levels are uncertain. The combination of increased supplies of natural gas from shale gas production, the economic slow-down, and a reduction in the consumption of natural gas for industrial and power generation uses, have led to natural gas prices falling to their lowest levels in a decade.

Supplies of natural gas (assisted by LNG – liquefied natural gas and new shale gas production in North America) are in abundance, and natural gas storage levels are significantly above the five-year average for this time of year. In addition, the appreciation of the Canadian dollar has further depressed Canadian natural gas market prices. The current expectation is that natural gas commodity prices will remain low over the next twelve months.

#### **PURCHASED GAS VARIANCE ACCOUNT (PGVA)**

Board 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.

As of October 31, 2010 SVGC'S PGVA was estimated to be in a surplus position of \$17,166 owing to customers. This represents a reduction from \$72,348 owing to the customer in the 2009/10 gas year. This results in the PGVA rate rider of \$0.253/GJ owing to the customer effective November 1, 2010.

#### **LOUISIANA PACIFIC**

SVGC and Louisiana Pacific entered into a Natural Gas Delivery and Transportation Commercial Agreement effective January 1 to December 31, 2010. In the Agreement, Louisiana Pacific agrees to pay SVGC \$8,300 per month as a Demand Charge to access the delivery and transportation of natural gas to the Swan Valley Gas system, the Many Islands Pipe Lines (Canada) Limited and TransGas Limited Pipelines. The agreement also specifies gas and delivery charges.



## **BOARD FINDINGS**

The Board will approve SVGC's Application to decrease the natural gas consumption charge from \$5.178/GJ to \$4.369/GJ and also approve the rate rider refund in the amount of \$0.253/GJ to be included in the gas consumption charge as a refund to customers from the PGVA.

The Board proceeded by way of a paper process to continue its least cost regulatory model being applied to SVGC. 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 achieved 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.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at [www.pub.gov.mb.ca](http://www.pub.gov.mb.ca).

**IT IS THEREFORE ORDERED THAT:**

1. Swan Valley Gas Corporation's request to decrease the cost of gas at the TransGas Energy Pool contained within the gas consumption charge for each sales class rate to \$4.369/GJ effective November 1, 2010 BE AND IS HEREBY APPROVED.
2. Swan Valley Gas Corporation's request to allow a Purchase Gas Variance Account rate rider refund in the amount of \$0.253/GJ to be included within the gas consumption charge effective November 1, 2010 BE AND IS HEREBY APPROVED.
3. The rate schedule attached as Appendix A reflecting above charges BE AND IS HEREBY APPROVED.

THE PUBLIC UTILITIES BOARD

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

"H. M. SINGH"  
Acting Secretary

Certified a true copy of Order No. 108/10 issued  
by The Public Utilities Board

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Acting Secretary



## Monthly Natural Gas Rates November 01, 2010

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

<u>Rate Class (Code)</u>	<u>Applicable To</u>	<u>Monthly Natural Gas Rates</u>			<u>2000 to 2010 Project Price Customer Contribution*</u> (\$)
		<u>Basic Monthly Charge</u> (\$)	<u>Delivery Charge</u> (\$/m <sup>3</sup> )	<u>Gas Consumption Charge</u> (\$/m <sup>3</sup> )	
<b>Residential:</b>					
Residential (M01, M11, M21)	Residence, Cottage, Farm up to 10,000 m <sup>3</sup> /yr	20.00	0.185	0.218	861.00
<b>Commercial:</b>					
Commercial (M02)	0 to 10,000 m <sup>3</sup> /yr	35.00	0.079	0.218	997.50
General Service (M03)	10,001 to 100,000 m <sup>3</sup> /yr	34.50	0.060	0.200	7,350.00
Institutional (M04)	100,001 to 1,000,000 m <sup>3</sup> /yr	29.75	0.043	0.194	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



## Monthly Natural Gas Rates November 01, 2009

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:

<u>Rate Class</u>	<u>Applicable To</u>	<u>Monthly Delivery Rates</u>		
		<u>Basic Monthly Charge</u> (\$)	<u>Delivery Charge</u> (\$/m <sup>3</sup> )	<u>Demand Charge</u> (\$/m <sup>3</sup> /Day)
<b>Industrial:</b>				
<b>Delivery Service</b>	100 % firm and Over 1,000,000 m <sup>3</sup> /yr	250.00	N/A	0.351
<b>Minimum Bill:</b>	Basic Monthly Charge plus Demand Charge plus Apportionment of upstream transportation requirements			
<b>Interruptible Service</b>	Interruptible (In conjunction with Delivery Service contract)	250.00	0.015	N/A
<b>Minimum Bill:</b>	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.



# Monthly Natural Gas Rates January 01, 2010

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

### Minimum Bill

Access fee of \$8,300 per month.

### Delivery Service

If gas is consumed for ten (10) or less 24-hour periods in any calendar month, there is no Delivery Service fee payable beyond the Minimum Bill.

If gas is consumed for eleven (11) or more 24-hour periods in any calendar month, the Delivery Service fee of \$25,550 shall be payable for that month. This is not in addition to the Minimum Bill amount of \$8,300.

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.